

# **ECONOMIC AND SOCIAL COHESION**

## INTRODUCTION

Although the EU's objectives for energy policy are defined by the Commission as overall competitiveness, environmental protection, and security of supply, there is a fourth general objective - that of encouraging economic and social cohesion - which should to be treated alongside the main three. Occasionally, the Commission acknowledges directly the importance of energy in developing its regional policies. It did for example, in early 1994, present a Communication which concluded that Community energy policy was developing in the context of very disparate national, regional and local situations.

The Commission noted that the least-developed countries and regions were handicapped by their insufficient access to energy supplies and by having the least efficient technologies. It was necessary, the Commission emphasised, for the Community to develop a two-track strategy: a stronger emphasis on energy in other Community policies, especially those directed at cohesion, such as the Community Initiatives funded by the Structural Funds; and special treatment for, or focus on, less-developed regions in energy policies, such as the energy programmes on R&D, energy saving and renewables, and through the development of the trans-European networks.

The Commission's 1996 white paper on energy policy mentioned, briefly that "social and economic cohesion cannot be neglected" The relevant paragraph reads: *"It is essential that in a more competitive market this social role is not undermined, in view of the importance of energy for the quality of life and for the creation of jobs. A further important objective of the Community is to promote solidarity and cohesion between regions which finds expression in a number of measures that seek to close the economic gap between the richer and the poorer regions. A Community energy policy can make an important contribution to this objective through, on the supply side the development of energy infrastructures that would facilitate the access of energy products to the remote and less-developed regions of the Community, particularly the ultra-peripheral regions, and by helping these regions, where possible, to increase their energy production capacities. At the same time, the Community needs to encourage consumers through their local authorities to develop a more active role."* The indicative work programme in the Commission's white paper contained just one item linked directly to the economic and social cohesion theme, that of developing the energy trans-European networks (TENs).

Although the subject of networks could equally have been dealt with in the chapters on market liberalisation or on security of supply, the strongest impetus for their continued development, at least until now, both in terms of policy and funds, has been directed towards the interconnection of the less developed regions - i.e. in line with the second of the two tracks identified in the 1994 paper.

Since the Member States agreed to incorporate a Chapter on TENs in the Maastricht Treaty, the Commission has pursued a vigorous policy of implementation. All the EU institutions have regularly demonstrated strong backing for the policy, particularly in terms of the employment potential aspects. The Commission's aims were held up in the mid-1990s, by the Parliament's insistence on a precise reading of the codecision procedure on the Guidelines Decision, specifying those projects defined as of common interest. Moreover, the Council has declined to increase the funding to meet the requirements suggested by the Commission, although this is far more significant for transport than energy.

Other initiatives along this second track - a stronger emphasis on less-developed regions in the energy saving, renewables and RTD programmes - are in fact implemented in a number of ways: by encouraging partnerships through the tendering procedures; through a special programme on energy efficiency planning at urban and regional level; and through the actual studies and market research carried out by the programmes (Chapter Four B).

Apart from TENs, this chapter also looks briefly at the other main linkage between energy policy and economic and social cohesion, as identified in the 1994 paper: the Structural Funds; and particularly at two of the Community Initiatives, Interreg and Rechar. These programmes were initiated in the mid-1990s but the Commission is now looking forward to a new generation of regional policy programming as part of Agenda 2000.

Utilising the EU Treaty, the Commission put forward, in January 1994, two draft Decisions concerning energy TENs, The first defined a set of Guidelines by which “projects of common interest” should be selected, and a list of such projects. The second provided for a favourable context - technical, legal, administrative - for completion of the projects of common interest.

*The favourable context Decision*

The second of these, which is short and relatively simple, was adopted under the cooperation procedure in March 1996. It says that, in order to contribute to a more favourable context for the development of TENs, the Community attaches the greatest importance to: “*The realisation of technical cooperation projects between the entities responsible for energy TENs; and cooperation between Member States through mutual consultations with a view to facilitating implementation of the authorisation procedures for TENs projects to reduce delays.*” It gives the Commission the right to take initiatives, in consultation with the Member States, to that end. Financial support for TENs may be provided in accordance with the Council Regulation on financing of networks (see below), and through other Community instruments, according to their own rules and objectives. Implementation of the Decision is to be carried out through the same committee procedure set up by the Guidelines Decision (as below).

Although the Council was ready to act quickly on both the Decisions, their adoption was held up by the European Parliament, partly, because of the mid-1994 elections. More importantly, though, MEPs were concerned over how their responsibility, under the codecision procedure, for the Guidelines Decision would be implemented with regard to future changes to the annex which contained the list of projects and their definitions. (There were similar difficulties with parallel proposals from the Commission for transport and telecommunications TENs).

*Dispute over application of codecision to the Guidelines annex*

The Council had reached a Common Position in June 1995 on both Decisions and incorporated a number of the Parliaments amendments. Nevertheless, the conciliation procedure was required for the Guidelines Decision and it took until March 1996 for an agreement to be found. The Parliament retained full codecision powers over the entire legislation, including the annex of projects of common interest. However, with the agreement of the Council, the annex was finally simplified so as to contain only a general description of the regions or areas in which each of the projects was located. It was agreed that the more detailed description of specific projects meeting the Guidelines would be discussed by the regulatory committee (the one set up by the Council and Parliament Decision), and would be the subject of a later Commission Decision. The Commission committed itself to using the project specifications, which had been part of the Council’s Common Position, in its submissions to the regulatory committee.

### **Details of the TENs Guidelines Decision**

The Decision was formally adopted on 5 June 1996. It sets the Guidelines by which “projects of common interest” should be selected. These are:

“*For electricity networks:*

- *the connection of isolated electricity networks to the interconnected European networks;*
- *the development of interconnections between Member States and of internal connections so far as necessary in order to enhance these interconnections;*
- *the development of interconnections with third countries in Europe and the Mediterranean region which contribute to improving the reliability and security of the Community’s electricity networks or to adding to electricity supplies to the Community.*

*Types of eligible projects of common interest*

*For gas networks:*

- *the introduction of natural gas into new regions;*
- *the connection of isolated gas networks to the interconnected European networks, including the improvement needed to the existing networks for this purpose and the connection of the separate natural gas networks;*
- *increasing the transmission (gas delivery pipelines), reception (LNG) and storage capacities needed to satisfy demand, and diversification of supply sources and routes for natural gas.”*

The Decision requires Member States to take any measures “they consider necessary” to facilitate and speed up the completion of projects, and it includes a mechanism for the Commission to negotiate with third countries for the mutual recognition of projects of common interest. The core of the Decision, however, is the annex which provides an indicative list of 23 electricity and 20 gas projects of common interest, all identified by a letter and a number (see tables).

## Extending the list of projects of common interest

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Only a few days after adoption of the Guidelines Decision, in July, the Commission presented a proposal, to the Council and the Parliament, for the addition of 31 new projects. This proposal passed far more smoothly through the legislative procedure and was formally adopted with barely any changes in May 1997. The Commission said the new projects were necessary because of developments in the two years that had elapsed since its original proposal was put forward in January 1994. It gave three reasons.

Firstly, the original list of projects of common interest contained only a few involving the three Member States that acceded at the start of 1995. Secondly, the move towards interconnected energy networks at European continental level - i.e. including the countries of Central and Eastern Europe - was on the increase. Thirdly, the rapid development of the market, particularly in gas, had seen new projects emerge which were quick to reach an advanced enough stage - i.e. due to start construction within the next five years - to be included as EU trans-European network projects.

*Reasons for rapid update of project lists*

Since the first Guidelines Decision by the Council and the Parliament, the Commission has published two of its own Decisions to provide the specifications for each of the projects of common interest. The first, in July 1996, listed specifications for just 25 of the projects (the others were not ready), and the second, one year later in July 1997, listed the specifications for all 74 projects, i.e. the 43 from the original Guidelines Decision and the 31 from the amending Decision (although a few are described as not yet having specifications).

### Electricity network projects of common interest

#### Connection of isolated electricity networks to European interconnected networks

a1	UK	conn. by sub. cable of Northern Ireland to Scotland
<b>a4</b>	<b>Gre-Ita</b>	<b>conn. by sub. cable of Greek network to Italian network through NW Greece and SE Italy</b>
a7*	UK	conn. by sub. cable of the Isle of Man

#### Development of interconnections between Member States

b1	Ger-Den	conn. by sub. cable between the German network (UCPTE) and Denmark's eastern network (Nordel)
b4	Fra-Bel	compl. of conn. between the two networks through NE France and southern Belgium
b5*	Fra-Ger	strength. of the conn. between the two countries
<b>b6</b>	<b>Fra-Ita</b>	<b>conn. between the two networks through SE France and NW Belgium</b>
<b>b7</b>	<b>Fra-Spa</b>	<b>land conn. between the two networks through SW France and northern Spain</b>
b9	Bel-Lux	conn. between the two networks
<b>b10</b>	<b>Spa-Por</b>	<b>strength. and compl. of conn. between the two networks through northern Portugal and NW Spain</b>
<b>b10a*</b>	<b>Spa-Por</b>	<b>new conn. between the two countries through southern Portugal and SW Spain</b>
b11	Fin-Swe	strength. interconn. north of the Gulf of Bothnie
b12	Aus-Ita	strength. conn. between N Italy and the Austrian network
b13*	Ire-UK	strength. conn. between Ireland and Northern Ireland
b14*	Aus-Ger	strength. of the conn. between the two countries
b15*	Net-UK	conn. by sub. cable between SE England and central Netherlands

#### Development of internal connections necessary to make the best use of the interconnections between Member States

<b>c2</b>	<b>Den</b>	<b>conn. by sub. cable between the country's western (UCPTE) and eastern (Nordel) networks</b>
c3	Net	strength. conn. in the NE of the country
c4	Fra	strength. conn. in the NE of the country
c5	Ita	strength. and developing conn. on the E-W axes in the north of the country and on the N-S axis
c5a*	Ita	strength. and developing conn. on the E-W axes in the NW and on the N-S axis in the centre
c6	Spa	strength. and developing conn. in the regions in the north of the country and the Mediterranean axis
c7	Por	strength. conn. necessary for interconn.
c8	Gre	strength. conn on the E-W axis in the north of the country
c9*	Ire	strength. conn in the NW of the country
c10*	Spa	strength. and developing conn. in NE and W in particular to connect wind power to network
c11*	Swe	strength. and development of internal conn.
c12*	Ger	development of conn. in the north of the country

#### Development of interconnections with third countries in Europe and the Mediterranean region helping to improve the reliability, security and supply of Community electricity networks

d2*	Ger-Pol	strength. of the conn. between the two countries
d3	Ger-Nor	conn. by sub. cable between N Germany (UCPTE) and S Norway (Nordel)
d5	Ita-Swi	strength. conn. between northern Italy and Switzerland
d8*	Gre-Balkan	strength. of conn. to Albania, Bulgaria, and former Yugoslavia, inc. reconnection to UCPTE
d9	Gre-Tur	conn. between the two countries through NE Greece
d10*	UK-Nor	conn. by sub. cable between NE/E England and southern Norway (Nordel)
d11	Net-Nor	conn. by sub. cable between the NE Netherlands (UCPTE) and S Norway (Nordel)
d13	Spa-Mor	conn. by sub. cable between S Spain and the Moroccan network
d14	Baltic ring	strength. and developing conn. between networks (Ger, Pol, Rus, Est, Lat, Lit, Swe, Fin, Den, Bel)
d15*	Swe-Nor	strength. of conn. between the two countries
d16*	EU-Bel-Russia-Ukraine	development of interconn. and interface between the (extended) UCPTE network and the networks of third countries in E Europe, inc. the relocation of the high voltage DC conversion stations operating previously between Austria and Hungary, Austria and the Czech R., and Germany and the Czech R.

NB: Projects in bold are those picked out as priorities by the Essen Council

\* Projects added to the original list by the second EP-Council Decision in 1997

Source: Decisions 1254/96/EC and 1047/97/EC

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Over 150 actual projects so far

However, it is clear from the Commission's specifications that far more than 74 actual projects are involved in the 74 "projects of common interest" contained in the Guidelines. For example, some 16 connections are listed under c5, nine for connections on the east-west axis, and seven for connections on the north-south axis. Similarly, the specifications for c11 contain three separate projects (connections in northern Sweden, central Sweden and southern Sweden respectively). On the gas side, there are just as many multiple projects. The specifications for the Baltic Ring scheme (d14), for example, include five separate projects with more yet to be defined. For another example, g8 includes development of underground storage on Spain's north-south axis in five different locations. All in all, there are about 80 actual electricity projects and 80 gas projects listed in the specifications so far.

**Financing the TENs feasibility studies**

There is a third legal base underpinning the EU's trans-European networks policy. A Council Regulation, adopted in September 1995, provides the basis for disbursement of Ecu2.345bn between 1995 and 1999 to projects of common interest (as defined in the Decisions on Guidelines) in the transport, telecommunication and energy sectors. However, only a fraction - Ecu112m - has been earmarked for energy projects. The monies are to be used for cofinancing (up to 50%) of preparatory, evaluation and feasibility studies and other technical support measures; for subsidies on interest on loans; contributions towards fees on guarantees for loans; and direct grants in duly justified cases. Total combined Community aid for any particular project must not exceed 10%.

The Regulation provides for a committee to oversee the allocation of funds and this committee has met regularly since October 1995. Even though the Guidelines had not been approved, the Committee was able to allocate Ecu12.2m from the 1995 budget for energy project studies (the EP had approved a budget line in 1995 and the financial Regulation specifically made provision for a

Gas network projects of common interest		
<u>Introduction of natural gas into new regions</u>		
e4	Spa	setting up gas networks in Galicia (inc. an LNG terminal), Extremadura, Andalusia, Valencia-S, Murcia
e5	<b>Por</b>	<b>setting up in the country, in particular along the Atlantic coastline, of a gas network</b>
e5a*	Por	construction of an LNG terminal on the Atlantic coast
e6	<b>Gre</b>	<b>setting up a gas network, in particular along the Aegean coastline, inc. LNG terminal/facilities in Attica</b>
<u>Connection of isolated gas networks to the interconnected European networks, inc. the necessary improvements of the existing networks, and connection of separate natural gas networks</u>		
f1	Ire	conn. between the gas networks of Ireland and the UK (Northern Ireland)
f2	UK-Cont.	sub. conn between gas networks of the UK and the continent through Belgium
f3	Lux-Ger	establishing a conn. to supply Luxembourg from the German networks
f5*	Fra-Spa	strengthen. of transport capacity between the two countries
f6	<b>Por-Spa</b>	<b>constructing pipelines to supply Portugal through S Spain, and Galicia and Asturias through Portugal</b>
f7*	Fra	conn. of the networks of the SW and of the south of the country
f8*	Aus-Ger	strengthen. of transport capacity between Austria and Bavaria
f9*	Aus-Hun	conn. between the networks of the two countries
f10*	Aus-Slova	conn. of Austria to underground storage capacity in Slovakia
f11*	Aus	conn. between pipelines linking Austria to, respectively, Germany and Italy
f12*	Gre-Alb	conn. between the networks of the two countries
<u>Increasing reception (LNG) and storage capacity necessary to satisfy demand and diversification of supply sources and routes for natural gas</u>		
g1	Ire	developing natural gas storage facilities to supply the Irish network
g3	Fra	extending capacity of existing LNG terminal in W France
g4	Ita	construction of new LNG terminal to allow diversification of supply in particular for electricity
g7*	Fra	extension of underground storage capacity in the SW of the country
g8	Spa	development of underground storage capacity on the country's N-S axis
g8a*	Spa	development of underground storage capacity on the Mediterranean axis
g9	Por	construction an underground storage facility
g11	Bel	extending existing underground storage capacity in N Belgium
g12	Den	extending underground storage capacity by increasing capacity or creating a new site close to Germany
g13*	Aus	extension and development of underground storage capacity
<u>Increasing transmission capacity (gas delivery pipeline) necessary to meet demand and diversification of supply sources and routes for natural gas</u>		
h1*	Nor-Fra	construction of a fourth gas pipeline from Norwegian resources (North Sea) to the Continent
h3*	Nor-Den-Swe-Fin-Rus-Baltics	conn. between the networks of these countries for an integrated gas network
h4	<b>Alg-Spa-Por-Fra</b>	<b>new pipelines for Spa and Por, and subsequently Fra, to be supplied from Algeria via Morocco</b>
h5	Alg-Tun-It	increasing transport capacity of the trans-Med pipeline to Italy from Algerian resources
h6	Rus-Ukr-Eu	increasing transport capacity to the EU from Russian resources via Ukraine, Slovakia and Czech R.
h7	<b>Rus-Bel-Pol-EU</b>	<b>creation of a second transport axis from Russian resources to the EU via Belarus and Poland</b>
h11	Bul-Gre	improvements to the gas transportation network in Bulgaria to ensure supplies from Russia to Greece
h12	Bel-Ger	connecting pipeline between the Belgian and German networks
h13*	Ger-Cze-Aus-Ita	construction of a system of connecting pipelines between these countries' gas networks
h14*	Rus-Ukr-Slova-Hun-Slove-Ita	construction of a new gas pipeline from Russian resources to Italy
NB: Projects in bold are those picked out as priorities by the Essen Council		
* Projects added to the original list by the second EP-Council Decision in 1997		
Source: Decisions 1254/96/EC and 1047/97/EC		

transitional period if the Guidelines were delayed). Since then, the Commission has made three further Decisions. By early 1998, a little under Ecu50m had been allocated: Ecu8.9m in December 1996, Ecu7.5m in July 1997, and a further Ecu18m in November 1997; and one or more feasibility studies had been financed for about half of all the projects of common interest from these first four packages of grants.

For example, among the electricity projects, three allocations, totalling Ecu0.64m, were granted in 1997 to the b13 project for an electricity link between Ireland and Northern Ireland (two to the UK, and one to Ireland). Ecu1.5m was granted in 1996 for cofinancing of studies on the NorNed project (d11) which is due for commissioning in 2001. Seven different grants, totalling Ecu5.56m, were given in 1995-97 for the Baltic Ring project (d14), to Sweden, Germany and Finland among others. In 1995, the first year of grants, Ecu0.64m went to Spain for the studies on the Pinar-Tetouan link (d13).

*Examples of electricity project grants*

On the gas side, Spain has received substantial grants, a total of Ecu5m in 1995 and 1997 for g8 and over Ecu2m in 1996 for g8a, in each case for a variety of separate storage projects. Denmark received Ecu1.7m from the 1996 budget for studying a gas storage extension project at Stenlille and Ecu1.5m from the 1995 budget for studying a new site at Toender (both part of g12). And, in 1997, Italy was granted Ecu1.67m for studies towards the Russia-Italy Volta gas link (h14).

*Examples of gas project grants*

As part of Agenda 2000 and the programme for EU enlargement, the Commission proposed, in March 1998, a revision of the financial Regulation to allow more effective multiannual planning and management of TENs schemes and to facilitate public-private partnerships. It also proposed several modifications to the form of permitted financing. The 10% threshold for EC contributions to projects would be raised to 20% for projects "related to more than one Member State, contributing strongly to the broader trans-European interest, or having an important environmental dimension". Funds for studies would remain limited to 50%, although in "exceptional cases", the limit could be breached, allowing funding of up to 100% "in particular for studies undertaken at the initiative of the Commission". The Commission suggested a budget of Ecu5.5bn, for the period 2000-06, of which just Ecu0.2bn would be for energy TENs.

*Changes expected to the financial Regulation*

### **Other financing instruments for TENs**

Although it is the only dedicated instrument for financing the TENs, the financial Regulation is not the only source of funding. The EU uses a range of other programmes to support the networks not least those financed by the Structural Funds (which provide by far the largest grants, see below), but also Phare, Tacis and Meda. Furthermore, TENs can benefit from European Investment Bank (EIB) loans and European Investment Fund guarantees, and where EC steel is used, from ECSC loans.

The EIB, in particular, has been very active in supporting both regional development and TENs. Since 1993, it has financed over Ecu4bn in loans for energy TENs, and at least Ecu2.5bn for seven of the 10 priority Essen projects (see below). Loans for regional development energy projects (including those also designated TENs projects) have fluctuated up and down in recent years - just under Ecu1bn in 1997, just over Ecu4bn in 1996, and Ecu2bn in 1995. Since the mid-1990s, the European Investment Fund (EIF), which was set up to assist infrastructure projects and SMEs, has provided over Ecu600m (Ecu180m outside the EU) in long-term loan guarantees for energy network projects. The main aim of the EIF in the energy sector is to facilitate the participation of private capital in developing TENs.

*European Investment Bank backing for TENs*

### **Sustaining the political impetus on priority projects**

In parallel to the lengthy procedures for adopting new legislation on TENs, there was another, more political, process instigated by the Member States. The Christophersen Group, made up of personal representatives of the heads of Member States' governments and chaired by Commission Vice-President Henning Christophersen, met often throughout 1994 with the specific aim of identifying and accelerating priority network projects. Much of the work focused on transport but there were also meetings devoted to energy and environmental protection networks. On completion of the report, Christophersen said: "*For the first time ever, the Community and the Member States - and very often with private operators - sat down to coordinate the implementation of projects of trans-European importance.*"

*The Christophersen Group's priority projects*

The report found that the obstacles to the development of energy networks were less important than in the transport sector and, where obstacles did exist, they were more often related to the regulatory framework than to financing. Nevertheless, the Group considered that its general approach to the implementation of transport projects was also useful in accelerating development of energy networks. Moreover, it considered that existing instruments (i.e. Structural Funds and the European Investment Bank) were adequate for the financing of priority projects.

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The report recommended a follow-up procedure to include energy TENS. It suggested the Council should provide the necessary impetus to the implementation of priority projects on the basis of an annual report by the Commission to be delivered to the Council every December. Should the achievement of an individual priority project be threatened, it said the Commission should report to the Council which would immediately consider responses together with, as appropriate, the Commission and the European Investment Bank. Member States and the EU should be asked to create suitable vehicles - "project authorities" - open to public and private operators, as appropriate, to ensure the promotion of priority projects. The Essen European Council, in December 1994, endorsed the Christophersen report and the choice of five electricity and five gas projects as priorities.

Progress reports have been delivered to the December European Councils each year since 1994, although they have tended to get shorter each year. The 1997 report to the Luxembourg summit said that most of the work on the Essen priority gas projects had already been completed, and that progress had been made on the Italy-Greece electricity link.

Status of Christophersen Group projects (Ecu m)			
Electricity projects		Grants	Loans
c2	Fyn-Sjaelland	Project decided, financing not ready, start in 1997 postponed	
b6	Grand ile-Pioassasco	Commissioning 2000	
b7	Cazaril-Aragon	75% of Spanish line built, project suspended, new route studies	
b10	Meson-Lindoso	3	26
a4	Ipiros-Puglia	113.5	100
Gas projects			
e5	Setubal-Braga	173	456 <sup>1</sup>
f6	Leiria-Cordoba	156 <sup>2</sup>	456 <sup>1</sup>
h4	Algeria-Spain	99	641 <sup>3</sup>
e6	Greece	529	390
h7	Russia-EU	Parts commissioned, parts under construction and decided	

<sup>1</sup> Loans for both Spanish and Portuguese parts of projects; <sup>2</sup> includes other connected pipelines  
<sup>3</sup> for works from Algeria to Tarifa in Spain

Source: DGXVII Information brochure (September 1997)

Further revision of the energy projects will be necessary

The report noted that there would be a need for a further revision of the list of energy projects of common interest, and that, in terms of enlargement there would be "a certain need for Union financial support to diversify energy supplies, especially of natural gas and make them as secure as possible". Because of the increasing focus on employment, the report also drew attention to the potential of TENS to create jobs, in the short-term construction phase, and in the longer term. Efficient infrastructure systems remained vital for competitiveness and thus for long-term growth and sustainable jobs, it said.

**Difficulties with France-Spain and Greece-Italy links**

The Energy Commissioner, Christos Papoutsis, found it necessary to intervene publicly on two occasions with regard to the priority electricity projects. In response to a French decision to stop work on the electricity link to Spain (Cazaril-Aragon), he told the Member States at an informal Energy Council in February 1996, that the project was of "special political importance" to the Commission. He said the eventual postponement of the project would "harm the Community's credibility" and would raise "doubts among the financial community, the investors and the citizens". In an unusual move, Niek Ketting, president of Eurelectric, added his support for the Commission a few weeks later. He said the French decision "defers the implementation of the internal market and the credibility of internal market policy" and that "Eurelectric wants to express its support for the stand taken by the Commissioner for Energy on the issue".

Interventions by the Energy Commissioner

In a statement to the press based on his comments to the Member States, the Commissioner also stressed that the project was important for the smooth functioning of the electricity networks of Spain and Portugal, particularly in the perspective of the liberalisation of the electricity market. He said it would be helpful if the national authorities could consult the Commission on every decision concerning the priority TEN projects, and added: "Of course, this does not mean that the Member States cannot make decisions on matters of high political sensitivity."

Later in 1996, the Greece-Italy priority project (a4) was also in trouble. The local municipalities on the Italian side had refused to grant construction permits because of environmental concerns, even though the project had been approved by the Italian environment minister. "I was very concerned to learn of the unexpected blocking of the electrical connection project between Italy and Greece", Papoutsis said. He stressed that the project had been the subject of specific commitments taken at

the highest political level at the Essen European Council and that it had “major political importance for the EU by virtue of its potential economic and strategic value”. He explained that the environmental constraints imposed, in Italy, as elsewhere, could not be ignored, but that “these constraints are not incompatible with the objective of developing electricity exchanges and the pursuit of the general interest. For the project in question, the [environmental] impact [assessment] study has led to the identification of a route which is compatible with the environment.”

### **The external dimension of energy TENs**

Apart from the focus on internal TENs, the Guidelines include a significant number of connections with third countries, both in the Eastern European and the Mediterranean regions. The Commission has sought to develop its TENs policy a little further by issuing a Communication on the external dimension of energy links. The paper, which was adopted in March 1997 in advance of the first meeting with energy ministers under the Structured Dialogue in May (Chapter Nine), drew attention to the importance of such links in terms of security of supply and the development of economic trade. It said: “*Further considerations are the improvement of economic and social cohesion, leading to better prospects for political stability and peace, and the functioning of the internal market in an enlarged Community.*”

The Communication concluded that the current situation between the EU and third countries demonstrated a good level of interconnection. However it highlighted some exceptions: electricity interconnections with the Mediterranean basin, and electricity and natural gas interconnections with the Balkans and the Baltic region. The report noted that the identification of TENs projects of mutual interest was well advanced, with 28 such projects identified within the scope of the EU’s Decision on Guidelines for energy TENs. Identification of energy network projects of regional interest in the third countries, it said, had started but would need longer term cooperation.

*Gaps in interconnections with neighbouring countries*

The Commission concluded the report with a number of recommendations. The EU should continue supporting the implementation of coherent energy policies in the third countries concerned (through Phare, Tacis, Meda and Synergy) in order to ensure a rational development of energy networks. The Member States and the third countries should collaborate closely and help develop and interconnect energy networks on a wider scale. Where required, the Commission said, it would be ready to take all accompanying political initiatives within the appropriate framework (Energy Charter Treaty, EC Treaty, TENs Guidelines, Association Agreements etc.) in order to establish a more favourable context for the realisation of energy network projects of mutual and regional interest in the third countries concerned. It would also continue to make use of the available programmes, and recommend the use of other EU financial instruments (EIB loans and EIF guarantees), to support the development of projects within the third countries.

*Recommendations for promoting development of external links*

## **REGIONAL DEVELOPMENT BACKED BY THE STRUCTURAL FUNDS**

The European Commission is actively involved in promoting greater economic and social cohesion within the Union through the use of the Structural Funds in support of a regional policy. This regional policy is geared towards six main Objectives, known by their numbers:

- 1 - promoting development in backward regions;
- 2 - helping regions hit by industrial decline;
- 3 - combating long-term unemployment;
- 4 - support for retraining;
- 5 - promoting the adjustment of agricultural and fisheries structures and the development of rural areas;
- 6 - helping regions with extremely low population density (Sweden and Finland only).

The main financial instruments for promoting this regional policy are the European Regional Development Fund, the European Social Fund and the Cohesion Fund. According to the principles of additionality, the aim is not to replace local, regional and national measures but to complement them. No projects under these instruments are funded entirely by Brussels, nor are they even conceived by the European Commission. There are, though, two distinct levels of Commission involvement. Firstly, there are national programmes directed at specific areas for specific objectives, which are put forward by Member States and approved by the Commission. Secondly, there are Community Initiatives which are based on Community aims and objectives.

*National programmes and Community Initiatives*

A new generation of programmes under the Structural Funds began in 1994. The most significant innovations, as compared with the earlier programmes, concerned adaptations relating to the consequences of economic changes, the enlargement and reinforcement of the partnership approach, strengthening of project appraisal and monitoring, greater attention to the environment, and respect for the additionality principle.

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*Breakdown of Objective 1 programme funds for energy*

By far the largest share of the Structural Funds goes in support of the Community Support Frameworks (CSF) for each Member State. For the period 1989-93, some Ecu2.4bn (in 1989 prices) was dedicated to energy projects in Objective 1 regions, mostly in seven Member States: Greece - Ecu865m; Spain - Ecu624m; Portugal - Ecu322m; Italy - Ecu312m; UK - Ecu182m; Ireland - Ecu70m; France - Ecu10m. The Commission said, in its eighth annual report on the Structural Funds, that "while these projects contribute to the main aim of regional development, they also comply with the priorities of the Community's energy policy: security of supply, the competitiveness of European firms and the compatibility of energy and environmental aims".

The projects were mainly concerned, the report explained, with more efficient use of energy; the diversification of sources of energy; the development of renewables; cost reduction; improved transport and distribution of energy; and the protection of the environment in activities relating to the production, processing, transport and utilisation of energy. Apart from the Member State programmes directed at energy, other programmes for Objective 1 regions also contained energy-related projects, such as those directed at environmental or transport schemes.

For the 1994-99 period, Ecu3bn was earmarked to energy projects in Objective 1 regions. This was broken down as follows: Greece - Ecu1,065m; Spain - Ecu704m; Portugal - Ecu566m; Italy - Ecu392m; UK - Ecu190m; Ireland - Ecu70m; France - Ecu8m; Austria - Ecu4m.

**Interreg support for cross-border energy links**

The most important mechanism, however, by which the Community itself demonstrates a solidarity with the under-developed regions is through the Community Initiatives, for which Ecu12.6bn was set aside out of the 1994-99 Structural Funds. A new generation of Community Initiatives were adopted by the Commission in June 1994. The two with direct aid for energy industries or communities were Interreg II, with its sub-programme Regen II for gas and electricity interconnections; and Rechar II for badly-hit coal mining areas. However, the Regis Initiative, only applicable to the French, Spanish and Portuguese island territories, also covered investment in energy saving materials and local energy production, and the training of staff in the field of energy.

**Rechar II programmes**

Country	Region	EU aid (Ecu m)	Date approved
<b>Austria</b>		1.848	Jul 96
<b>Belgium</b>	Chatelet	0.930	Jun 95
	Limburg	14.750	Jul 95
<b>France</b>	Lorraine	10.933	Dec 95
	Languedoc-Roussillon	1.012	Dec 95
	Midi-Pyrenees	1.146	Dec 95
	Bourgogne	1.540	Nov 95
	PACA	1.012	Nov 95
	Rhone-Alps	1.012	Sep 95
	Nord-Pas-de-Calais	16.886	Jul 96
<b>Germany</b>	Nordrhein Westfalen	66.450	Jul 95
	Nieder-Sachsen	1.650	Sep 95
	Sachsen-Anhalt	19.223	Sep 95
	Sachsen	29.800	Sep 95
	Thuringia	5.000	Nov 95
	Saarland	6.260	Dec 95
	Brandenburg	30.250	Jul 96
<b>Greece</b>		1.522	Jul 95
<b>Italy</b>	Tuscany	0.901	Dec 95
	Sardinia	0.780	Sep 95
<b>Portugal</b>	Castelo de Paiva	0.860	Mar 95
<b>Spain</b>		34.214	Jun 96
<b>UK</b>	Northeast England	23.456	Nov 95
	East Midlands	42.154	Jul 95
	Wales	20.459	Jul 95
	Eastern Scotland	10.002	Jul 95
	Western Scotland	2.657	Jul 95
	Yorkshire	44.573	Jul 95
	West Midlands	12.664	Nov 95
	Northwest England	6.904	Dec 95

Source: DGXVI



The aims of Interreg II, with respect to energy networks, were twofold:

“- To accelerate the creation of infrastructures for the reception and transmission of natural gas in peripheral regions where these do not exist at present;  
- to accelerate the completion of Community-wide networks for the transmission and distribution of gas and exceptionally electricity, so as to ensure appropriate interconnections between peripheral regions of the Community and the rest of the Community.”

Four out of six projects, chosen for Community funding under an earlier 1989-93 Regem programme and which were not completed, were eligible for funding under the new programme, according to the Commission Guidelines: One of the other projects - funding for a gas link between the UK and Ireland - received Ecu116m from Regem I and was completed. However, no suitable project was ever put forward for the sixth project under Regem I - an electricity interconnection between Italy, Corsica and Sardinia - and this received no money and was not listed under Regem II.

Funding for three of the four projects was approved by the Commission in March 1995. Some Ecu180m was committed for a further stage of the huge project to bring natural gas to Greece (Ecu90m had been granted by the first Regem programme). The new funds were dedicated to construction of the main high pressure gas delivery line to Greece and to infrastructure for transport and storage of LNG. At the same time, the Commission approved the Regem II funding for the Portuguese and Spanish projects as one, with Ecu140m for Portugal and Ecu80m for Spain. (Portugal was granted Ecu82m under Regem I for introduction of natural gas.) Early in 1996, the Commission approved Ecu75.772m for the fourth project - an electricity link between the Greek and Italian networks. The funds were split with Ecu55.772m for Italy and Ecu20m for Greece. (Ecu35m was granted for a connection between Arachthos in Greece and Galatina in Italy under Regem I.)

*Funding allocated  
by Regem I and  
Regem II  
programmes*

Apart from completing the four energy network projects, Interreg II, with an overall budget of Ecu2.9bn for the 1994-97 period, funded a large number of projects in cross-border areas. It was extended with a hybrid Interreg-Phare programme to include the border areas between Eastern and Western Europe. Local supply of gas and electricity and links with the TENs, energy saving, and renewables were all among the kind of projects included in the Interreg II programme.

### **Rechar support for revitalising coal mining regions**

There have been two Rechar Community Initiatives with the specific aim of providing financial support to the regeneration of badly-hit coal mining areas. Some regional programmes under the first, the 1989-93 Rechar programme, especially in the UK, were slow in getting approval from Brussels. This was partly because of difficulties over additionality (some Member States appeared to be using the funds instead of their own programmes rather than in addition to them), partly because of the political sensitivities attached to predicting mine closure areas, and partly because of administrative difficulties in implementing the programmes.

The Commission made a number of changes to Rechar II which allowed funds to be allocated where jobs were at risk (as well as already lost) and to areas which mined lignite and brown coal (as well as hard coal). During the discussion period in the first half of 1994, the European Parliament argued, without success, that the Ecu400m budgeted by the Commission should be raised by Ecu100m. It also advocated a more general mechanism for resource allocation, which was partly accepted by the Commission. In October 1994, the Commission decided on the areas and indicative allocations for Rechar II. For the first time, Italy and Greece were given a small bite of the Rechar cake but, as with Rechar I, the UK and Germany got the lion's share. A small grant for the then new Member State Austria was also squeezed out of the programme. All 30 Rechar programmes were approved and a total of Ecu410m in grants allocated by July 1996.

*Italy, Greece and  
Austria included in  
Rechar II  
programme*

The programmes covered a wide variety of activities, such as environmental rehabilitation, restructuring of water supply infrastructure, energy saving and job training schemes, and help for SMEs. The Community contribution for each Rechar programme also varied widely: for the Brandenburg project, it provided some 60% of the overall costs, while for the Tuscany programme in Italy, the Community contribution was nearer 5%.

### **ASSESSMENT**

In a European Union that has paid so much attention to developing competitiveness, it is desirable that a concerted effort should be made to ensure the Single Market works fairly. One aspect of this is regulation and application of competition policy, but another and very important element can be packaged within the term 'economic and social cohesion'. The EU needs to look after, in a general

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sense, and compensate in specific cases, those regions, for example, which are disadvantaged for geographical or historical reasons. This is not to say that natural competitive advantages should be ridden over, but rather that unfair advantages should be ironed out. Thus, Community support for gas pipeline investment to the peripheral regions, such as Ireland, Portugal and Greece, makes sense; as does providing support for enterprises in depressed coal mining regions.

Sometimes, but seldom and then only briefly, the Commission acknowledges that energy policy can contribute to economic and social cohesion. The 1994 Communication made an important contribution to the debate, one that seems to have been forgotten since. The important energy policy white paper would have been a suitable place for developing its analysis, but the Commission confused its citizens by talking about “guidelines for energy policy implementation” in four areas: integration of the market, managing external dependency, sustainable development and energy technology and research. The first of these looked as though it might include a cohesion element but it did not; and the last of the four was not a policy but an instrument of policy.

### *Minor references to economic and social cohesion*

Within the white paper, there was one reference to TENs, in the introduction to the “guidelines for energy policy implementation” (it was the only initiative of more than 40 listed in the work programme not linked to a reference within the four areas for policy implementation). One other initiative, possibly connected to the theme of this chapter - “energy management in the cities and regions and on the islands” - was due for a Communication in 1997 (but there was no sign of it by March 1998). This was linked to two paragraphs on the “role of regions, urban and rural areas” within the section on sustainable development which acknowledged the possible positive impact on rural areas of biofuel production, and the need to encourage technology transfer to the less developed regions. But that was all there was in the white paper.

In 1997, the Commission had another chance to develop the 1994 Communication and clarify its thinking. It adopted a paper with the grand title: “An overall view of policy and energy actions” (Chapter Two). This seemed to follow the same kind of structure as the white paper. It classified all the Community measures in the field of energy “on the basis of the contribution they can make to the four following top priorities: security of supply and international energy cooperation, integrating energy markets, promoting sustainable development in the field of energy, and promoting energy RTD”. Again, what is energy RTD doing there? Surely energy policies guide RTD, not the other way round.

In this paper, though, economic and social cohesion was promoted to one of three sub-sections on integration of the markets: “Energy policy is also concerned with Community action in the field of economic and social cohesion”, the Commission said, and it summarised its thinking: “*The possibility of having sufficient energy available at affordable prices is an important condition for the competitiveness of underdeveloped regions. A good energy balance, rational energy use and emphasis on the development of renewable energies are also important considerations for European regional planning.*” The Commission then referred to the energy component of the Structural Funds and to the cohesion parameters in the energy programmes.

It is now time for the Commission to give this subject a proper airing: firstly, for the sake of transparency, secondly in order to demonstrate a clarity of long-term thinking on the subject, and, thirdly, because the theme of energy and economic and social cohesion may well become more important in the context of the accession countries and the EU’s eventual enlargement.

### *Report needed on policy links between energy and cohesion*

Such a report could look seriously at the positive impact on the cohesion objective already achieved by the various Community efforts in support of energy TENs (and any negative aspects), and thereby look ahead towards future benefits, both within the Community and with its neighbours. The Commission’s Communication on the external dimension of TENs touched on economic and social cohesion, but the subject of TENs is so large, the amount of money needed so huge, that a closer study of the cohesion aspect alone would prove useful.

Such a report would also look at the energy programmes - SAVE, Altener, RTD - and check for consistency and effectiveness of the mechanisms designed to encourage economic and social cohesion. It would equally provide some detailed feedback on the energy content of the regional programmes (a 350 page annual report on the Structural Funds devotes only half a page to the energy content of the programmes!); and provide some guidance on what energy policy priorities should be absorbed into the new generation of programmes being prepared for the new century.