

EN

EN

EN



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 28.1.2009
COM(2009) 36 final

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

Investing today for tomorrow's Europe

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

Investing today for tomorrow's Europe

Since autumn last year, the European Union has faced a double challenge. The crisis in the financial markets sparked a sharp downturn in the European economy. It became clear that families, businesses and communities across Europe would feel the impact through unemployment and lost incomes: that urgent action was needed to address the crisis and its consequences. But at the same time, Europe was aware as never before how the long-term strength and sustainability of the European economy depended on spreading the tools of competitiveness to all sectors of European society, reshaping it to face the demands of energy security and the imperative of cutting greenhouse gases.

The result was the European Economic Recovery Plan¹ proposed by the Commission in November and endorsed by Heads of State and Government in the December European Council². A Plan which explained how Member States and the EU could co-ordinate their policies and inject an immediate stimulus into the European economy. But a Plan which was also carefully targeted to direct that stimulus to Europe's long-term objectives.

An important part of the Recovery Plan was the proposal to boost EU spending in defined strategic sectors. The agreed stimulus of 1.5% of GDP required contributions from both national and EU sources, including the EU budget. The EU has not spent up to the agreed ceilings: the Commission therefore calculated that €5 billion could be directed swiftly at defined goals such as energy and broadband. This would boost confidence that investment was not grinding to a halt, and put Europe on the path to a stronger economy for the future. This was amongst the aspects of the Plan picked out for "particular support" by the December European Council, recognising also the need to take a suitable geographical balance into account.

Since December, the need to act has become clearer still. In particular, the importance of energy security, and the shortcomings in Europe today, have become clear. The direct consequences were felt by households and businesses in several Member States. But the impact of the gas crisis was felt by all, destabilising the EU's relations with its neighbours and bringing home the need to make the EU less dependent on external suppliers.

This Communication sets out where investment should be targeted. It is accompanied by proposals for financing decisions in the areas concerned. The projects identified have been selected to match the EU's strategic goals. EU support will be shaped to accelerate projects and to bring action in place as quickly as possible. In line with the European Council conclusions, a geographical balance is assured. The Commission has already tabled a proposal to revise the Multiannual Financial Framework 2007-2013 to make available additional funds under Heading 1A, while respecting the total amounts agreed in the inter-institutional agreement.³ In the light of first discussions with the budgetary authority, it now proposes a transfer of resources not required under the ceiling of Heading 2 in respect of the year 2008 to

¹ COM(2008) 800.

² European Council conclusions 11-12 December, Brussels.

³ COM(2008) 859, 10.12.2008.

heading 1A, to fund the €3.5 billion proposed for energy projects⁴, with the EUR 1.5 billion proposed in respect of broadband infrastructure and the new challenges identified under the CAP Health Check remaining under Heading 2 for implementation under the European Agricultural Fund for Rural Development.

The Commission calls upon the Council and the European Parliament to swiftly examine these proposals and to mobilise the resources required from the budget. This will make a major contribution to the EU's efforts to put the European economy back on the road to growth and prosperity, and show the Union's determination to tackle challenges of strategic importance for the future.

Today's Investment for Tomorrow's Energy

Energy has become one of the key concerns for Europe. In December, the European Union took a set of key decisions to address the future of energy in the Union: to drive an energy sector able to make cuts in greenhouse gas emissions and to make renewable energy a major part of Europe's energy mix. At the New Year, Europe was faced with a gas crisis which highlighted the risks to security of supply. It underlined weaknesses not only in terms of diversity in imports, but in terms of the ability of the EU to transfer energy inside the Union to where it was most needed.

The changes needed require a major commitment and major investment. But the economic downturn risks delaying this investment unless additional action is taken now. The credit crunch is having a direct impact on the speed with which Europe is making the changes required. The risk is a loss of momentum and technological edge, and delay today meaning higher costs later. That is why the Economic Recovery Plan put particular emphasis on the need for "smart investment", a stimulus to the economy targeted on clear strategic objectives.

The Commission therefore proposes a set of three specific initiatives focused on the EU's key energy goals. First, support for strategic interconnection projects to help address some of the shortcomings in infrastructure today. Second, investment to maintain the development of offshore wind as a reliable supplier of renewable energy. Third, bringing forward a number of carbon capture and storage demonstration projects, to allow energy producers striving to cut emissions to retain the option of fossil fuels.

These initiatives will offer targeted, precise support to specific projects. In the coming years, they will have to be backed up by political initiatives and investment on a major scale. But the EU can already make a major contribution.

All the projects have been chosen with a view to their wider significance: infrastructure which will bring gains in terms of security of supply for the whole EU; technological and logistical advances which will mean a step forward for the European energy industry as a whole. They will work promote technological advance as part of the Strategic Energy Technology Plan for Europe, in particular integrating the results with the European Industrial Initiatives covering Carbon Capture and Storage and Wind Energy. They will also use every opportunity to promote leverage, in particular through collaboration with the European Investment Bank.

Connecting Europe's energy

Last Year's Strategic Energy Review set out the different components of an effective policy on security of supply⁵. The EU Energy Security and Solidarity Action Plan pointed to the need for stable supply from third country partners; for effective management of oil and gas

⁴ €1.5 billion in 2009 and € billion in 2010.

⁵ COM(2008) 781, 13.11.2008.

stocks, and crisis response mechanisms; for energy efficiency to limit demand; and for making the best use of the EU's indigenous energy resources. In particular, it highlighted how infrastructure was an indispensable part of the mix: infrastructure which the market has not always been able to supply. Interconnection has a positive knock-on for all, reducing dependence and increasing competitiveness to the benefit of the internal market as a whole.

The recent crisis in the supply of gas to European households and businesses has thrown the importance of infrastructure into sharp relief. The vulnerability of European energy supplies has become all too clear, with no clear alternatives at a time of shortage. Although some Member States have made efforts to help make up the shortfall in others, the links to make this possible has often proved lacking. The crisis has therefore shown up serious weaknesses in interconnection. But the same gaps in infrastructure have a longer-term cost for European competitiveness: less access to the cheapest energy imports, and less possibility for European companies and consumers to source the best value energy available inside Europe. The result will be a permanent drag on European growth.

At the same time, the current economic and financial crisis is putting the brakes on the implementation of energy infrastructure projects. Energy companies are as vulnerable as others to the credit crunch: there is a real risk that projects of major strategic interest will be put on hold – unless public investment steps in to give lenders assurances that these are the right projects to support.

The Commission therefore proposes to use €1.5-2 billion of the stimulus set out in the Recovery Plan to inject the necessary resources into key strategic interconnections. The Strategic Energy Review already identified a number of strategic energy priorities to address shortcomings and exploit opportunities, highlighting Baltic interconnection, a Southern Gas Corridor, liquefied natural gas (LNG), the Mediterranean, Central and South-East Europe, and a North Sea offshore grid. Projects should also address the particular needs of small islands cut off from the core EU energy networks.

The Commission has used the Strategic Energy Review to guide the choice of projects, seeking to address directly the objectives of security and diversification of supply. The projects are spread geographically around the Union. Their benefits will be felt not only in the Member State where they are located, but across the Union: both in terms of their strategic significance for energy security as a whole, and in terms of the opportunity to tender for contracts and to supply key technologies. They will give an immediate economic boost, and also build a stronger European economy for the future.

The proposal would support some 20 projects, covering both gas and electricity, as long as the beneficiaries fulfil key criteria to ensure the effective realisation of the projects. This includes provision to address one of the specific shortcomings highlighted in the gas crisis: the difficulty in allowing gas flow from west to east.⁶ It is essential that these projects have reached a degree of maturity that allows work to begin quickly: and that Member States accept the responsibility to accelerate procedures and authorisations as required.

The next generation of offshore wind

The renewable energy target agreed by the EU in December has put the focus on the need to bring on stream the technologies required. Wind power will be key to meeting the target, as underlined by the Strategic Energy Technology Plan for Europe. The wind industry aims to deliver 12-14% of EU electricity by 2020, with over a quarter of this coming from offshore

⁶ For example, to overcome the recent case where gas could not be transferred from Austria to Slovakia and to contribute to the connection between Bulgaria and Romania.

wind. This trend is set to continue, with offshore wind farms set to enjoy the highest growth in the sector. With many projects in cross-border coastal and maritime zones often requiring cross-border infrastructure and with offshore wind more technologically and logistically complex, the EU has a particular role to play in galvanising investment that might otherwise be neglected.

However, it seems clear that at present, the development of offshore wind projects has been put in question by the lack of available finance. Projects ready to move ahead risk being delayed, and some manufacturers have already had to cut jobs as a result. The Commission therefore proposes that around €0.5 billion should be devoted to projects in this sector. The projects have been selected on the basis of the ability of the EU to add value to projects already at a reasonable stage of development – particularly promoting regional cooperation to improve competitiveness and investing in advanced technology to develop a new generation of wind turbines, infrastructures and logistics which encourage rapid deployment of the technology.

Clean energy for the future

Carbon capture and storage (CCS) has been identified as one of the key technologies for the future. CCS would make possible sustainable power generation from fossil fuels: an essential component in the global drive to halve greenhouse gas emissions by 2050. It would allow Europe to take full advantage of its indigenous supplies of coal, oil and gas. And development of the technology would give European industry an important market opportunity in a technology of global relevance. However, CCS is a complex technology which may take many years to reach commercial viability.

The European Council recognised the potential of CCS by setting a target of having up to 12 demonstration projects up and running by 2015. The credit crunch has made this objective even more ambitious. The European Council decided last December to guarantee funding for CCS through a share of revenues from ETS auctioning. However, these funds will not be available immediately and will not be sufficient to bring on stream the desired number of demonstration projects. In the current economic situation, investor caution risks putting the European Council targets into question.

The Commission therefore proposes to accelerate the work on these key demonstration and infrastructure projects. Five projects will be supported, with each needing a €250 million investment to ensure their launch. They will represent a mix of technologies, geological conditions and Member States. They are all at an advanced state of readiness, to ensure that the beneficial effects of the investment come on stream as quickly as possible. The point of demonstration projects is also that the results will be made available to other players, so obligations in this respect will be made clear.

Investing for the future of rural communities

Rural communities can be amongst the most vulnerable to economic downturn. In difficult times, there is a greater risk of exclusion – and when the economy starts to return to growth, the benefits can flow more slowly.

One of the most important tools in the modern economy is broadband. In today's Europe, it unlocks the paths to finding new jobs, learning new skills, identifying new markets and cutting costs. It is as essential to schools, libraries and government offices as to businesses. It has become an essential tool to making the modern economy work. But there are gaps – communities where the market has not delivered coverage, due to dispersed populations and high costs. There are also many areas where early broadband technology now needs an upgrade, to deliver the internet at speeds expected today. That is why the European Economic

Recovery Plan set out a goal of developing broadband networks to achieve a full 100% high-speed internet coverage by 2010. It also underlined the need to upgrade the performance of many existing networks, alongside efforts to promote competitive investments in fibre networks and free up spectrum for wireless broadband.

The EU already uses rural development to promote growth in rural economies and the overall health of rural society. The "health check" of the CAP identified a series of new challenges of particular relevance to European agriculture. Tackling these challenges more quickly would allow agricultural communities to bring forward work to address these challenges and be better placed to be ready for improved economic circumstances. This would follow the emphasis given by the Recovery Plan to accelerating the implementation of EU structural actions, to bring investment on stream early in difficult times.

The Commission therefore proposes that the existing rural development instrument should be used to deliver a twofold boost to the rural economy. First, €1 billion should be fed in rural development spending for the specific purpose of developing broadband infrastructure in rural areas. Second, €0.5 billion should be devoted to accelerating the work to tackle the new challenges identified in the health check of the CAP.

The investment available in each Member State will be fixed by the Commission in accordance with the principles foreseen in Article 69(4) of Council Regulation (EC) N°1698/2005. The Commission intends to fix them on the basis of the current distribution key.

Bringing the internet to rural communities

Encouraging broadband already plays a part in EU rural development. The strategic guidelines for rural development for programming period 2007-2013⁷ put particular emphasis on the importance of Information and Communication Technologies (ICT) for rural businesses and the socio-economic development of rural areas. ICT diffusion and take-up plays a key role in revitalising rural areas, helping the diversification of economic and social activities by boosting economic activity, making available new on-line services, and supporting e-inclusion. It can address the relatively low-take up of ICT in the agri-food sector, and help growth areas such as rural tourism.

By the same token, where there are still gaps in broadband coverage between urban and rural areas and where the take-up of internet has fallen behind, there is a real risk that this translates into economic and social exclusion. The result can be the stagnation of rural economies, unemployment and depopulation.

This risk is all the stronger at times of economic downturn. The more regions are remote, isolated and depopulated, the more they suffer most from the lack of broadband connections and access to internet. The more regions fall below the targets for broadband connection, the less likely they are to have the income levels to sustain their own investment.

Funding could be focused on three key areas:

- Creation of new broadband infrastructure including backhaul facilities (e.g. fixed, terrestrial wireless, satellite-based, or combination of technologies) ;
- Upgrade of existing broadband infrastructure (e.g. increased reliability, speed, capacity, reach, better quality of service, etc.);

⁷ Council Decision 2006/144/EC of 20 February 2006 on Community strategic guidelines for rural development.

- Laying down passive broadband infrastructure (eg: civil engineering works such as ducts, and other network elements such as dark fibre etc), also in synergy with other infrastructures (energy, transport, water, sewerage networks, etc).

It would be channelled through measure 321 “Basic services for the economy and rural population”. The investment would complement work already under way to develop broadband through cohesion policy, building on work already under way in several rural areas.

The Commission will set out further details of the policy opportunities for encouraging rural broadband in the coming weeks⁸. This initiative will also go hand in hand with a new EU broadband strategy designed to provide a framework for action for the development of broadband across the European Union. It will seek to build coordination between national and regional authorities, support the "pooling" of infrastructures to use them to best effect, and exchange best practices⁹. If well coordinated, the right mix of rural development, ICT/broadband policy and structural funds can avoid duplication and can generate the leverage needed to make a real difference.

Such initiatives need to be compliant with the State aid rules of the Treaty. State aid rules encourage well-designed public interventions that are the best placed to address the lack or limited affordable broadband availability in these regions. They ensure that public interventions are well-justified and proportionate.

Tackling future challenges

The "health check" of implementation of the Common Agricultural Policy reform of 2003 identified a set of crucial new challenges for European agriculture - climate change, renewable energies, water management, biodiversity and dairy restructuring. In November 2008, Agriculture Ministers agreed to tackle these challenges with additional resources within their rural development programmes, under the rules of the European Agricultural Fund for Rural Development. However, this additional support is only foreseen from January 2010 and for some Member States only in 2013¹⁰.

Accelerating this work would bring forward investment and allow work to start on these crucial strategic priorities. Starting this work in 2009 would be of particular benefit to the EU-12.

The investment set out in this Communication will make a major contribution to tackling the economic crisis and making Europe stronger and more competitive for the future. The Commission urges the European Parliament and the Council to give swift consideration to the proposals, and to adopt them as soon as possible.

⁸ In a Communication "*Better access for rural areas to modern ICT*"

⁹ The European Broadband Portal www.broadband-europe.eu also acts as a tool for the exchange of best practices and for the publication of calls for tender on a European scale and can provide a leverage effect to optimise the available budget.

¹⁰ Not at all for Romania and Bulgaria.