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## **The Priorities of the Belgian Presidency of the EU - Speech by Stephen Ainger, Group Director for Strategy and Planning Lattice Group plc.**

Ladies and Gentlemen,

First of all, I would like to say thank you to Indepen, and Ann Bishop in particular, for inviting me this evening to present my views on this very topical issue. And thanks to you, Mr Ambassador, for your interesting and enlightening speech.

First, a word of introduction. As Group Director for Strategy and Planning, I'm responsible for corporate strategy at Lattice Group.

As many of you know, Lattice is one of three successor companies, so to speak, of the old British Gas.

The biggest part of Lattice Group is Transco, which owns and operates the gas network in the UK. However, Lattice's core business is far more than that of a tightly regulated operator of pipelines. Officially, at Lattice, we call ourselves an infrastructure technology group. This is because our core business is the development, operation and maintenance of networks – simply speaking, to apply the skills we've acquired in the framework of gas market liberalisation in the UK to other liberalised network industries (e.g. telecoms).

My role is to develop strategies for Lattice to manage this transition profitably, and to ensure that an increasing amount of its growth and revenues are generated outside the regulated ring-fence.

In this role, Europe affects me. Clearly, Brussels is a major catalyst for change - change which presents both risks and opportunities for a company like Lattice, especially at the present time where Continental energy markets are engaged in a process of liberalisation.

But this evening, I'd like - if possible – to try not to talk about Lattice but to adopt a somewhat wider perspective and share some thoughts about Europe, about the future of the energy sector, and about the risks and rewards of doing business in Europe in the years ahead.

First, I feel obliged to point out a few obvious limitations. I'm not a specialist in government - or governance - of any type, whether British, European, or European Union. I'm emphatically not a specialist in the European Union. Its workings are usually puzzling, often even incomprehensible to me. I'm sure some of you this evening know far more about these matters than I do, and I look forward to learning from you in our exchange later on.

Nevertheless, all of us here tonight recognise that we are in the middle of a huge and complex debate about the future of Europe. The Nice summit last December created the possibility of moving forward on some key issues. Finally, the path has been cleared for the enlargement of the union from its present 15 countries to perhaps as many as 27 countries. We heartily welcome this historic step, but we recognise that one of its many results will be to further complicate what is already an unwieldy and awkward decision-making process.

We all speak of enlargement but in reality this process seems to be about much more than simply adding some countries to the EU. For this whole exercise to be successful, it appears a true transformation of the EU will be required.

Even with its present total of 15 members, decision-making in the EU often enough is suffering from sclerosis. If another 15 states join up, some people fear the system could break down completely unless there is radical reform to its institutions.

However, in my view, the envisaged reform and streamlining of institutional arrangements will be insufficient to address the real challenges ahead. To me, this seems a unique opportunity to take a step back, think about what the primary objectives of the EU should be, and to re-focus Brussels' intervention to those areas which are necessary to achieve those objectives. When do we really need a central policymaking body to make decisions, and when should national laws come into play? And what are the appropriate areas in which we can or can't accept a patchwork of diverging national models?

Many people are concerned that the EU interferes too much, and there are others who believe that it does not interfere enough in areas it should interfere in. We should listen to these concerns and realise that what is needed is a less ambitious but more focussed and effective European Union.

So what are the European Union's primary objectives?

To respond to this question, I think it's worth looking back to the original purpose of the European Union. For an entire generation – many of our parent's generation – it was fresh memories of the horrors of the Second World War that served as the catalyst for the 1958 Treaty of Rome that led to what is now the EU. The driving belief was that countries that were economically interdependent would be less likely to go to war with one another. The specific goal of the treaty was to foster free market competition and an internal European market so that goods and services could circulate freely between Member States.

But then, on the other hand, we've all heard about the speech held by French Prime Minister Jospin at the beginning of this week, who clearly stated that in his view, the EU is more than a market, and that it should be a political project. I thought this statement summarised quite neatly what is really at the core of the 'Future of Europe' debate.

Please allow me to give you my personal view on this. For me, the primary purpose is and should be the fostering of an internal market that allows EU companies to build a platform from which to grow their businesses globally, and create profitable economies of scale. The internal market is central to the EU's mission, and should be a priority.

Whatever can be done by democratically elected national governments without distorting the Internal Market should be left to subsidiarity. I'm saying this not because I'm British but because I think that very simply there is no other choice. How could one ever dream of implementing a common political and social model across an enlarged Union, with such a variety of social, cultural and economic structures? But also, why should we even try to, since there are democratically elected governments in each country to look after these issues. Implementing the Internal Market will be difficult enough.

I can think of two examples taken from the programme of the Belgian Presidency that illustrate my point.

One is worker's consultation and the 'European social model'. Clearly, there is a delicate balance to be struck between protecting workers and fostering competition, and it must be reconsidered - and readjusted - on an ongoing basis. This is an area that I believe is best dealt with by democratically elected, national governments. Indeed, every government has the duty and responsibility to address this issue. Recent events in the UK car industry clearly illustrate this problem. In my view, not only is there no need for an EU-wide harmonised model, but also trying to achieve this could be dangerous because it would deprive Member States of the flexibility needed in dealing with their specific national requirements.

The other example is one that I happen to be very familiar with – the internal market for energy. Funnily enough, energy is an area that traditionally has been regarded by the EU as a 'national'

policy. The EU Treaty does not include an energy policy, and member states have more or less been left alone to establish and co-ordinate their own policies.

Recently, a number of people have called for the need for subsidiarity in response to the Commission's recent proposals for a strengthened Directive for the establishment of the Internal Market in gas and electricity.

In its proposal, the Commission aims at a minimum degree of structural harmonisation in regulating Third Party Access to gas and electricity networks across the EU.

The proposal is borne out of the recognition that the first gas and electricity Directives have not been strong enough to achieve a truly competitive, pan-European wholesale market for gas and electricity which gives consumers across the EU a real choice. This is because the first Directive was too much focussed on subsidiarity. It laid out matters of principle and it set broad targets for opening European markets to competition. However, it did not get into the practicalities of how to deliver them. Despite its liberalising intent, the effects have been modest.

Because of frustration with the slow pace of progress, on 13 March of this year, European Commissioners approved proposals to amend the directive, with pragmatic and enforceable measures that will lead to more rapid market liberalisation.

Nevertheless, some people claim it is too interventionist and does not respect the principle of subsidiarity.

In my view, there is little room for subsidiarity here, and we as a company fully support the Commission's proposals.

Let me explain why:

First, there is the physical reality of the gas and electricity networks. In order to physically move gas from place to place, it has to be transported great distances over pipes and grids. If we are to offer consumers a real choice between suppliers, access to these grids cannot be closed to new entrants. They must have open access if we are to create a truly open and competitive marketplace.

Furthermore, these pipes and grids are integrated across Europe. They cross national borders and pass through various EU member states. This creates a significant level of interdependence. If just one country fails to effectively open up its gas or electricity networks, it jeopardises the Single Market as a whole, and potentially the security of supply for major parts of the European Union. For me, there is no question that this in itself warrants a somewhat more harmonised and co-ordinated approach.

Another reason why we need broad rules of agreement in the gas and electricity markets is the need for reciprocity - in other words, the need to create a level playing field. The UK market has been opened up to competition and contracts have been offered for tender in Europe. Foreign companies can - and are - bidding and winning these contracts. European utility companies, notably the French and the Germans, have entered the UK market and made a considerable number of acquisitions in the UK water and electricity sectors. Yet at the same time, they have retained national ownership of their own infrastructure and supply chain. Their own markets are effectively closed to us. These are not fair market conditions.

This is not an issue in the UK alone, and we are all aware of protests in Italy regarding a take-over of an Italian utility by a company whose country is effectively closed to competition. So far, the UK has refrained from adopting a reciprocity clause. But pressure to do so is mounting.

I clearly see a danger that a failure to implement the Single Market in gas and electricity quickly will lead to a dangerous escalation of national reciprocity policies whereby Member States unilaterally close their markets to companies of those countries that haven't achieved the same level of market opening. In my view, if that was allowed to happen this would lead to a major credibility loss for the EU.

We in the UK realise that we can no longer adopt an isolated position towards market liberalisation, be it in energy or other market sectors. We must engage constructively with Europe and work towards the common goal of a pan-European, integrated market. We as businesses need the European Union to facilitate our role on the world stage. And we need the European Union to help our businesses grow on a global basis.

As I mentioned earlier, I'm speaking as a corporate strategist who's interested in my company's profitability and that of our shareholders. Of course I am. But what I also have in mind is extending greater consumer choice – real choice - to consumers across Europe. I have in mind creating economic incentives for sustainable economic development, and a level playing field for all businesses.

And I have in mind a better quality of life for the 370 million people who live in the European Union, and for the many millions more who will be joining it in coming years.

Thank you.