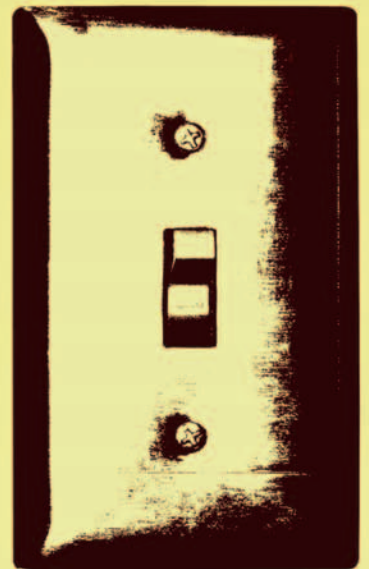
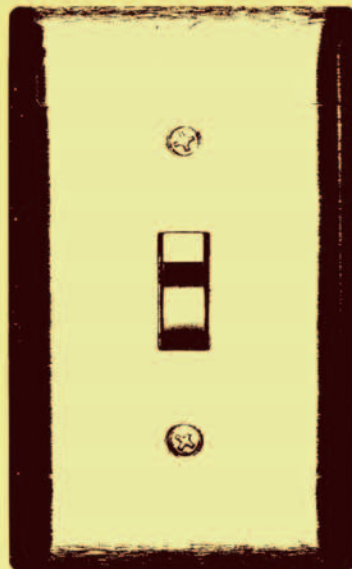
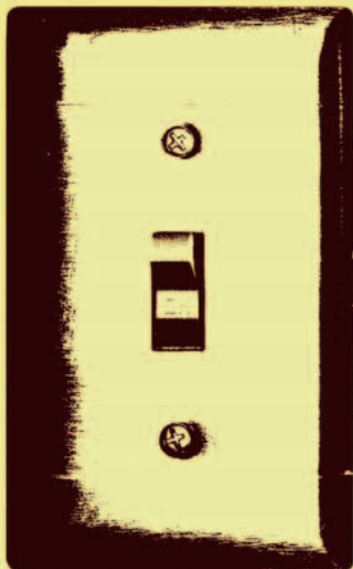


Business & policy perspectives on today's global challenges

Viewpoint

APCO WORLDWIDE

MAY 2006
ENERGY



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PR Week, 2005

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Foreword



The global and European policy agenda remains overshadowed by energy concerns. It's a topic that is set to dominate a myriad of future policy decisions; governments, regulators and the business community are set to watch developments in the sector closely for the rest of the year.

It is timely that senior executives from APCO offices around the world have set out their personal views on energy sector developments for this, our inaugural issue of Viewpoint. This new APCO journal will focus on seminal policy and business issues – in this edition they will be considered through the lens of the global energy debate.

Energy prices remain high, and OPEC's authority is waning just when countries such as Russia, Venezuela and Nigeria are becoming increasingly vocal, at times even outspoken, on the world stage. The continuing turmoil in the Middle East and the pressure on once reliable energy suppliers is redefining thinking about energy in the developed world. No more so than in the US, where President Bush has openly acknowledged America's addiction to oil and announced a goal of replacing more than 75 per cent of US oil imports from the Middle East by 2025. At the same time governments in the Middle East are seeking to reduce their dependency on oil and gas production – their goal being to generate one million new jobs outside the energy industry in the Arab world by 2020.

As opinion leaders across Europe turn their minds to energy security and the diversity of supply for the future, many now argue that Europe should speak with a single voice on energy issues. National governments have, however, been spurred to support the consolidation of their own national energy champions in a wave of protectionism. The reevaluation of energy options across the EU is stimulating renewed thinking about nuclear energy as a possible alternative to hydrocarbons. The way is also being paved for a more concerted effort to create incentives for alternative energy supplies.

The energy sector is integral to the advancement of living standards around the world; it stimulates debate and concern at all levels of society. Governments, multilateral organisations and businesses need to work together to find new ways of providing a proportionate response to these issues.

I do hope the range of views expressed in these pages make a thought-provoking and enjoyable read.

Brad Staples is CEO of APCO's Europe, Middle East and Africa region

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The UK's Ugly Duckling

Simon Miller believes nuclear power has a future in Britain



Energy policy in the UK, like much else in life, used to be so simple. Indeed, in 1992 it was such a tranquil backwater that the Prime Minister, John Major, abolished the separate Department of Energy. Traditionally, its role had been to manage the state-owned energy industry, but as British Gas, British Petroleum and the electricity industry had all been privatised in the late 1980s, civil servants were left twiddling their thumbs while the private sector played with its new toys. The coal industry, and even Britain's nuclear energy industry, joined BP *et al* in the private sector in the mid-1990s. Problem solved.

Fast forward to the present day and a different set of energy policy challenges has surfaced in the government's in-tray, prompting the Prime Minister, Tony Blair, to launch an intensive consultation and review earlier this year. From the Department of Trade and Industry's Energy Review a redefined statement of intent will emerge.

The ownership question that dominated the 1980s and 1990s has been replaced by a more fundamental one: how can energy supply be secured in the context of growing demand, dwindling domestic resources and climate change?

The UK is already a net importer of gas and is just a few years away from being in the same position with oil. By 2020 its ageing nuclear power plants, which currently generate 19 per cent of domestic electricity, will have been decommissioned; and coal-fired plants, which account for a further 16 per cent, will have been cut in half over the same period to meet EU directives on carbon emissions. Doing nothing is not an option.

The government, of course, is not short of advice. The environmental lobby sees the energy review as the opportunity to push for a low carbon economy, fuelled primarily by renewables and underpinned by much more stringent energy-efficiency targets. The coal industry sees an opportunity to reposition itself as cleaner and greener than before, thanks to new technology and rising energy prices that improve coal's economic viability. And supporters of hydrogen and fuel cell technologies see



a chance to secure higher investment to accelerate their transfer from the laboratory to the commercial environment, and to establish the UK's leadership in the world fuel-cell market.

Amid the scramble for the government's affections, nuclear energy has quietly made ground. It now appears almost certain that the government will sanction a new generation of nuclear power plants.

Does this reflect masterful communications on the part of the industry? Probably not. Nuclear power has played a long game. It is one thing to be anti-nuclear when the prospect of dependence on foreign energy sources is remote. But that prospect is no longer remote – it is happening now and the problem will become more acute. People are coming to accept, albeit grudgingly in some cases, that in an imperfect world nuclear power has a place.

Already, though without fanfare, some leading trade unions are calling for a new generation of nuclear power stations; and a number of ministers are conceding that nuclear energy may have an enhanced role to play in the future. The left-of-centre Liberal Democrats and green pressure groups fly the flag of opposition to nuclear energy, but not always, it seems, with huge conviction or the confidence that their views will carry the day.

Some suspect that Tony Blair has always considered

nuclear energy as an essential element in the UK's long-term energy future, but has been waiting until the climate of opinion was more amenable to voice this view. That time could be now. The Labour government is believed to have opened up a discreet dialogue with the Conservative opposition to develop a cross-party consensus, and Sir David King, the chief scientific adviser, has urged the government to give the green light to new nuclear power plants.

Given his intention to stand down before the next election, Blair can be as bullish as he wants. When he announces the conclusions of the energy review, expect much emphasis on the government's commitment to renewable energy, energy efficiency and modern technology. But these alone will not solve the UK's energy problems. Such technologies do have an important part to play, but the idea that the country could rely exclusively on wind and solar power to meet its energy needs is a pipe dream.

Blair's leadership has often been characterized by a contrasting combination of bold personal commitment and pragmatism. We will see this in the outcome of the energy review. The Prime Minister is likely to give nuclear power – for so long the ugly duckling of UK electricity generation – the chance to emerge as the elegant solution to the country's energy needs.

Simon Miller is Managing Director of APCO UK and is based in London

Energy Security in Europe

Richard Bullard wonders if EU countries will be able to speak with a single voice



Coal and nuclear power were two of the foundation stones of the European Economic Community, the predecessor of the European Union, yet a coherent energy policy remains a glaring omission in the EU's ever-expanding policy ambit.

However, following the recent interruptions to Russian gas supply to Ukraine and Georgia, security of energy supply has moved rapidly up the political agenda and become a matter of broad public concern for the first time. This has provided the long-needed catalyst to concentrate minds in Brussels on an energy policy that would embrace geostrategic, investment, competition, environmental and innovation issues.

With demand expected to surge by 50 per cent by 2030, the EU area will be even more heavily dependent on energy imports in the future and face higher prices as world competition for resources increases. The most optimistic scenario cited in the International Energy Agency's *World Energy Outlook* predicts that, even after a significant shift to energy-efficiency programmes, the EU area would still require two-thirds of its energy from abroad in 2030. More probably, it will have to import 81 per cent of its gas and 94 per cent of its oil. The former Foreign Minister of Poland, Bronislaw Geremek, succinctly summarised the challenge recently:

"Security is not only a question of supply; it also means security from dependence. If we don't think in those terms, then Europe...will be ignoring the main danger it could face. And the European Commission until now has been unable to formulate an energy security policy that takes account not only of energy supply, but of security from dependence."

The Commission's Green Paper on the future of energy in Europe, presented ahead of the March European Council meeting in Brussels, addresses the need for a truly European energy policy that would bring together 25 currently disjointed strategies. To this end it proposes the integration of energy into external relations policy, so that the EU could speak with a single voice with major supplier, producer and transit countries. The paper urges diversification of suppliers and routes, a strengthening of

the link between energy and the EU's competitiveness goals and greater exploitation of renewables and alternative energy sources. The need for a "no taboos" debate on nuclear energy is also stressed. Further recommendations include investment and innovation in clean energy and the promotion of energy efficiency both in the EU and globally.

The run-up to the summit itself was clouded by disputes over foreign ownership of energy companies and protection of national energy champions, often conducted in polemical and high-pitched tones. Yet member states once again pulled back from the brink and agreed the birth of a common energy policy in order to demonstrate their ability to tackle the issues that matter to EU citizens. In truth, the heads of state and government stopped some way short of setting up the machinery necessary to develop a fully-fledged supranational policy, quietly sidelining proposals such as a common European regulator or extending the Commission's role.

The Commission was nonetheless emboldened, and on 4 April, under its mandate to use existing treaty rules, announced that it was opening more than 20 proceedings against member states for failing to implement electricity and gas liberalisation laws correctly. The Competition Commissioner, Neelie Kroes, will very likely follow this up with targeted action against individual companies. While these moves cannot solve the external security threat – in particular the difficult relationship with Russia – the Commission is beginning to establish some momentum in sorting out the most pressing problems in its own backyard.

The EU remains a lumbering political animal, consumed by a period of deep introspection. In the longer run, the difficulty in building a genuine common energy policy may mirror its difficulty in building a common foreign and security policy. When Europe's citizens are increasingly calling for affordable and sustainable answers to their energy needs and climate change fears, the EU could do worse than to make secure energy supplies its next big political project.

Richard Bullard is a Director of APCO Europe and is based in Brussels



What Next for Oil and Gas in the Middle East?

Cleopatra van de Winkel on the vision of the Gulf states



It is not only the West that wants to reduce its reliance on Middle Eastern oil and gas. The word that more than any other defines the true state of business affairs in Arab oil producing countries is *diversification*: diversification from dependency on oil

and gas. Gulf state elites have come to realise that their policies and business partnerships are too narrowly pegged to these resources.

There is a new generation of leaders and thinkers emerging across the Gulf Cooperation Council (GCC) states – Saudi Arabia, Bahrain, Kuwait, Oman, Qatar, and the United Arab Emirates – who are advancing dynamic new initiatives. These leaders are aiming to build on the experience of Asean countries and the European Union as they develop an internal market across their region. To meet the World Bank's goal of generating a million jobs in the Arab world by 2020, vision and leadership are required to develop education and training for employment in non-traditional sectors. Foreign diplomacy will also be necessary to promote the region's political and business coalitions so as to create solid business initiatives that do not rely on oil and gas.

As individual GCC states start to draw up their programmes, they will need to ensure that their new business coalitions enhance the reputation of both their country and their region, and that they use their significant resources to invest in new sectors. In the WTO, and in regional and bilateral trade agreements, the GCC states must forge coalitions of influence beyond those that depend on oil and gas. These considerations will raise a number of interesting questions as the states shape "foreign affairs" for global business. Will their initiatives allow them to increase their regional strength and generate sophisticated models of employment for inter-Arab trade? How far will the individual cultures of states define their "personality", so that they create synergies rather than compete with one another?

Oil and gas resources provide a platform for lateral diversification. A number of significant initiatives are currently in the offing. For example, a major deal is being brokered between the leadership of Abu Dhabi and



Dubai for a \$6 billion project to build the world's largest aluminium smelter plant in Abu Dhabi. Financed by the national banks, the first phase is to be delivered by 2010. The government of Abu Dhabi is seeking to generate similar growth and diversification opportunities in the plastics industry.

The leaders of GCC states want to ensure that future know-how and expertise are driven by, and based in, the region for the benefit of their people. To facilitate this, centres of innovation and research will be developed from each initiative. Successful public-private partnerships are being implemented as actively as in Europe and the US. What remains to be seen is how GCC leaders will drive growth and simultaneously take advantage of one another's strengths. Synergies between states must be encouraged, and their reputations for political and business governance enhanced.

Cleopatra van de Winkel is a Regional Director of APCO's EMEA region and is based in Athens

Russia: The Politics of Energy Reserves

Simon Whitehead says Moscow has set new rules of engagement



When the Kremlin turned off the gas to Ukraine in late 2005, causing European gas volumes to drop alarmingly, Western European governments had to acknowledge that consumers might begin to question their continuing reliance on Russian energy. Although "old" Europe will not succumb to panic after just one incident, and the "new" Europe of former Soviet bloc countries such as Poland and Hungary merely shrugs knowingly, attitudes toward President Putin and his team are changing. At first Western governments were incredulous that the Russian leader could have acted so apparently rashly just as his country was about to assume the presidency of the G8 for the first time. But they quickly realised that turning off the taps was designed to send a clear message to the world. As a result they are hurriedly redefining the terms of engagement with Russia and looking for new sources of energy security. Since the collapse of the Soviet Union, the vast

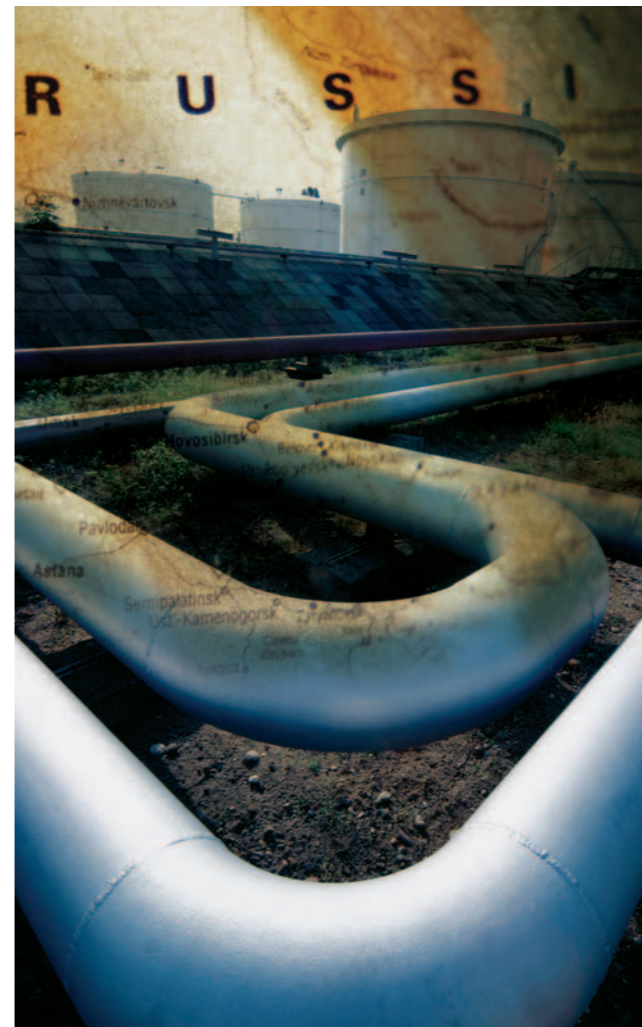
extent of Russia's energy reserves has become clear and has already changed the balance of power in energy that had prevailed since 1945. OPEC, struggling with the turmoil in the Middle East, has a new, active competitor to contend with.

Putin started his economic and political reforms slowly, but is now making no secret that the plans he first set out in his St Petersburg Mining Institute thesis should be driven forward. In his thesis, written when he worked for the mayor of St Petersburg's office in the foreign economic relations department, Putin argued that hydrocarbons were the key to Russia's development and the restoration of its former power. He argued that the most effective way to exploit these resources was through state regulation of the oil and gas sector and by creating large, vertically integrated companies that would work in partnership with the state. There should be no surprise then at the swift development of Rosneft, the oil group, and the state's investment in Gazprom.

Nevertheless, Western oil majors continue to jostle for access to Russian reserves. The success of the BP-TNK venture, though somewhat dependent on the scope it is granted by Gazprom to get its gas reserves to market in China or elsewhere, has already ensured BP's mid-term dominance over Shell. These companies understand the need for a handshake in Moscow, and many are learning the new rules of engagement with a Russia that wants to buy Western know-how without allowing ownership of the crown jewels to pass into foreign hands.

So it's not oil and gas men that the West is having to grapple with in Russia now, but former bureaucrats, most of them friends and colleagues of the President himself from the KGB or from his days in St Petersburg. It's a determined Kremlin team that has planned the re-emergence of Russia as a world power. It's a team that Western politicians and businessmen have to find new ways of dealing with. It is through the use of its energy assets that Russia is driving its foreign policy and defining its position in the world.

Simon Whitehead is a Director of APCO UK and is based in London



A Business Diplomacy Approach to Energy

Rachel Thompson says the sector can offer the world its creativity and unique skills



The geopolitics of energy supply and energy security is volatile, complex and high risk. No doubt most major energy companies have strategies and plans to grapple with this situation. But in the main such efforts fall short of what is required: a business diplomacy approach to the foreign policy of energy.

In perhaps no other sector do the goals of progressive foreign policy and enlightened business interests converge as closely. This is because ideals of shared prosperity and security, ideals that foster secular democracy and the rule of law, themselves encourage sustainable growth in both mature and emerging markets.

For the past twenty years, as global flows of private foreign direct investment have grown to exceed global exports and domestic output – driving globalisation – foreign policy and business have occupied an overlapping space. Foreign policy has embraced trade and investment issues while multinational companies have had to consider multicountry, even global, policy issues that go well beyond the purely commercial terms of trade. In this period society has come to be represented by a multiplicity of local and international civil society organisations that are independent of governments. The concepts of corporate social responsibility and public-private partnerships are business and government responses to the challenges of the marketplace and political arena.

Today the stakes are raised again. From now on, business needs not only to participate in international affairs,

but also to set the agenda and standards. A good example is the Global Business Coalition on HIV/AIDS, the rapidly expanding alliance of more than 200 international companies dedicated to using the business sector's unique skills and expertise. Another is the Business Contact Group, comprised of leading investors in Africa who convened in 2004 to provide private sector input to the UK government's Commission for Africa, and in doing so involved over 120 African business leaders in its work.

Such collaboration in business diplomacy goes well beyond corporate citizenship and lobbying. It involves leadership in the realm of ideas, which can then be backed by practical action, deploying the organisational and communication skills in which the best businesses excel. And, as the previous examples demonstrate, when business takes the lead as catalyst, governments and NGOs find it easier to meet on common ground with common purpose.

It is surely high time for a similar business partnership approach to energy efficiency. To recall the words of Niall FitzGerald, former co-chairman of Unilever and now CEO of Reuters: "I believe our generation of business leaders will be judged on whether they positively contribute to resolving the two great issues of our day – Africa and climate change. I accept that I have a personal responsibility. What role do you want to play?"

Rachel Thompson is a Regional Director of APCO's EMEA region and is based in London

Resurgent Africa

Thomasine Kamerling says business must involve all stakeholders



Globalisation is bringing higher economic growth and with it huge challenges for the oil and gas industries. As demand for the commodity in Asia grows apace, and the US takes steps to decrease its dependency on oil from "unstable parts of the world", African oil has become essential. Indeed Africa is expected to provide the US with a quarter of its oil supply in the next decade, in contrast to the current 15 per cent, and is already an important supplier to Europe. With huge proven oil and gas resources a number of African countries are already world energy suppliers, while others, such as Egypt and Equatorial Guinea, have rapidly developing energy sectors.

Last year, for the first time in its 72-year history, the triennial World Petroleum Congress took place in Africa. This reflects the growing importance of the continent, both as a producer and consumer of energy resources. The Congress's theme addressed the need for industry to develop partnerships with key stakeholders to meet the challenges it faces as a result of globalisation. These challenges include anti-globalisation movements; managing perceptions around the financial returns from high oil prices; developing new technologies that match demand; and recognising the growing interdependence of the energy industry and the environment in which it operates.

The anti-globalisation movement is encountered in many different forms across Africa. But whatever its manifestation, it raises questions that are central to the future of the energy industry in terms of transparency of revenues, access to resources, timing and pace of investment and security of the supply chain.

Africa is dependent on the development of new technologies to exploit its heavier oils and enable deep-sea drilling. Although the modern technologies now available could expand reserves significantly, it is essential to take into account their local and national impact and the need for technology transfer. Such factors can be responsible for significant changes in market conditions. These "above ground" risks, as they are called, have the potential to affect supplies across the globe. The triggers that could precipitate a crisis in African oil supplies range from local and national socio-political conflict, to sabotage and terrorism, quite apart from extreme weather and physical accidents.



To succeed in Africa, the energy industry must be seen to be working in partnership with the core of democratically elected governments, and other stakeholders, to address the issues that they face. For example, health crises such as HIV-Aids and malaria are affecting the productivity and manpower of the energy industry across the continent. African governments generally recognise the value of public-private initiatives in this area, which after all is one in which energy companies can play a significant and positive role, both in local communities

and at the national level. They can provide help through funding preventative education initiatives, or through ensuring that sufficient supplies of drugs are available, for example.

Managing relationships with key stakeholders is essential for the industry if it is to create an environment in which it can succeed and build a sustainable future in Africa. Only by clearly demonstrating its integrity and ethics can the oil and gas industry safeguard its credibility and win over its critics.

Thomasine Kamerling is a Director of APCO Africa and is based in Johannesburg



America's Addiction

Bob Bissen believes fuel efficiency would be a first step on the road to a cure



When President Bush declared that “America is addicted to oil” in his State of the Union address on 31 January, it should have come as no surprise. Nor should it have caught anyone off-guard when he told Americans that their oil addiction is being fed by imports “from unstable parts of the world”. Anyone who has followed recent developments in the Middle East, Nigeria or Venezuela knows that.

To help break the addiction – or at least ease the cravings – the President announced a goal of replacing more than 75 per cent of US oil imports from the Middle East by 2025. This will be a slow and painful process.

We Americans have a love affair with oil – and particularly the gasoline that fuels our cars. The disruption in supply following Hurricane Katrina in August last year hit American consumers most directly at the pump, where the cost of a gallon of gasoline rose to unprecedented highs. Yet these prices were still half what Western European and Japanese consumers normally have to pay. Furthermore, despite the 50 per cent price increase, consumption fell by less than 10 per cent. Meanwhile, legislators and citizen groups are still supporting local tax increases specifically to fund road expansion that will allow yet more cars on to our roads. Americans are angry about the price of gasoline and concerned about oil's future, but still unwilling to commit to any significant sacrifice to reduce their consumption.

While there are many different routes toward achieving the President's goal – such as the increased use of ethanol or a possible breakthrough in hydrogen fuel technology – a simple increase in fuel efficiency could be a big first step. While the President has advocated some minimal increases in the gasoline mileage that US car makers are required to achieve, he has, as the *Washington Post* recently stated, “stopped short of

across-the-board changes advocated by many lawmakers and environmentalists that could significantly reduce oil consumption.” For example, according to Robert F. Kennedy Jr, an environmental attorney and son of the late Attorney-General, merely raising the average fuel efficiency in the US by 7.6 miles per gallon would save enough to eliminate completely the need for any imports of Middle Eastern oil – thereby exceeding the President's goal by 25 per cent.

One easy way to attain such fuel efficiency would be to increase the number of hybrid vehicles on America's roads. Sales of hybrid vehicles in the US increased 22-fold between 2000 and 2005, yet still made up only 1.2 per cent of total new vehicle sales last year. Projections for increases in the proportion of hybrid vehicles in the US market vary widely – from five to 20 per cent by 2010 – but large oil companies are factoring hybrids into their forecasts. ExxonMobil, in its most recent energy outlook, expects hybrids to comprise 10 per cent of the American market by 2030, and approaching 30 per cent of all new vehicle sales in the US and Canada.

In his State of the Union address, President Bush called on the American people – including the government, corporate and consumer sectors – to work together to “make our dependence on Middle Eastern oil a thing of the past.” If we all play our part, the US could be well on its way to reaching his goal – or perhaps even that of Mr Kennedy – before 2025. The Encarta Dictionary describes addiction as “something to which a lot of time is devoted”. In the 1970s Americans devoted plenty of time to queuing at gasoline pumps. Some 30 years later this was repeated following Hurricane Katrina. Let's hope we've learnt our lesson, and can now devote our time and resources to weaning the US from its oil addiction.

Bob Bissen is a Vice President of APCO Worldwide and is based in Washington, DC



Germany's Questionable Inheritance

Bernd Wilmer says the country's nuclear policy will have to be reversed



Chancellor Schröder's pledge to phase out all nuclear energy production in Germany by 2025 was an economically unjustified, opportunist move that brought Joschka Fischer and the Green Party into coalition with his Social Democrats. It was also a populist decision intended to harp back to the “Zeitgeist” of the early 1980s when, “*Atomkraft nein danke!*” (Nuclear power no thank you!) was the slogan of a whole generation.

Now Germans are only too aware of their dependency on imported gas and oil. Our country's future energy supply will be determined by two factors above all: demand for global energy (expected to increase by roughly 50 per cent by 2020) and supply of fossil fuels such as oil and gas (expected to dwindle and thus become even more expensive). Given that energy prices are fast becoming the determining factor for business when deciding where to locate, unilateralist political decisions are unwise as well as dangerous. It is clear that it is simply a matter of time before Schröder's 1998 decision is reversed. With more and more countries entering the global energy market, competitive pressures are likely to intensify.

In such an environment only a secure energy supply combined with predictable costs can encourage inward investment to Germany. All options must remain on the table. Germany already takes a leading role in the development of renewables, but the proportion of solar, wind and biogas technologies in the national energy mix must increase. Nuclear plants have made an indispensable contribution to Germany's energy portfolio, but their potential role in reducing carbon emissions has only recently been recognised.

Schröder's successor, Angela Merkel, will have to work hard to repair the negative connotations of nuclear energy and prepare the German public for a reversal in the country's nuclear energy strategy. This will require a campaign to persuade the public of the long-term benefits of the technology – one of which is the likelihood of cheaper electricity for consumers. Nuclear energy is not a dirty word. What counts is its responsible use. German nuclear energy plants are among the safest in the world. Guaranteeing their future safety should be as much a government priority as securing low energy prices for German consumers. The future economic and social performance of Germany and Europe depends on a secure energy supply at affordable rates.

Bernd Wilmer is a Director of APCO Deutschland and is based in Berlin



Italy's Dependence

Ivo Ilic Gabara says industry is suffering from the lack of a long-term energy policy



The 2005-06 winter energy crisis hit Italy harder than any other Western European nation. Not that the temperatures were particularly low – Rome was still basking in a relatively mild, Mediterranean winter. But the exceptionally cold winter elsewhere

in Europe highlighted a long-term Italian problem: the country's excessive dependence on imported energy.

The scale of the problem is easily illustrated. For example, more than half of Italy's electricity is generated by natural gas. Indeed, Italy consumes 80 billion cubic meters of natural gas every year, most of it imported, with peaks of up to 30 per cent of total imports. One month after the Russo-Ukrainian dispute, supply was still failing to meet daily demand by about 16 per cent.

So what is the Italian government doing to address the problem? Early in February, it tapped into its strategic natural gas reserves – which total 5.1 billion cubic metres, about 4 per cent of the country's annual demand. Other palliative measures included the mandatory capping of temperatures to which buildings can be heated – though the *Carabinieri's* threats did not persuade many to turn down their thermostats. The Italian Parliament was quick to breach the law: the National Deputies were caught red-handed, and red-cheeked, as their chamber at Montecitorio overheated.

Yet differences of one or two degrees in room temperatures are not the main issue here. Italy's industrial competitiveness, and with it the overall state of its economy, is what's at stake. Industry has been penalised for decades by the huge cost of energy imports. Ever since the country decided to abandon nuclear energy in a 1987 referendum, Italian businesses have paid 30 to 40 per cent more for their energy bills than their immediate European competitors. Across the rest of Europe, more than 35 per cent of electric energy is produced by



nuclear power stations, with peaks of 78 per cent in France, followed by Germany with 40 per cent. Sky-rocketing oil prices have only aggravated what was already an endemic crisis in the Italian system.

So you would have expected the energy issue to figure high on the contestants' agendas during Italy's recent, and vitriolic, general election campaign. Not so. With the return to proportional representation, rammed through parliament by the Berlusconi government, Italy has regressed to a situation in which small political parties can wield disproportionate influence. Neither political coalition, nor candidate could afford to alienate the parties on the fringes. Consequently, the nuclear option was deemed too sensitive to tackle since the environmen-

talists oppose it nationally. The coal option is similarly opposed by the environmentalists and centre-left at the local level. The light natural gas option, although supported by both the centre-left and centre-right nationally, was too sensitive to tackle as it is opposed by the environmentalists, the centre-left and centre-right at the local level. As British Gas learnt in Puglia, where it met massive local resistance to its re-gasification plant that was much wanted and approved by Rome, the "not in my backyard" principle rules.

Is there a way out of this stalemate? Possibly, but the weak Prodi government produced by the April election is hardly encouraging. Italians are deeply

individualistic and approach the voting booth from this perspective. As our utility bills soar, we may think again. Thinning wallets will eventually bring the energy issue to the top of the new government's agenda. Confindustria, the Italian employers' association, has been requesting a long-term energy policy for years. Failure to deliver means that this might well be the issue that brings down the new coalition government and drives home the message to the Italian electorate that the time has come for hard choices.

Ivo Ilic Gabara is Managing Director of APCO Italy and is based in Rome

Prescient France

Claire Boussagol on France's ambition to lead the way on energy policy



France's position on energy is unique, thanks to its long-term commitment to developing its nuclear capability. As the rest of Europe frets about its reliance on imported energy, France's choice has never seemed more prescient.

A famous 1970s slogan proclaimed: "France has no oil, but ideas". In the aftermath of the first oil crisis, the problem was less about resources than geopolitics. Today, it is more complex. Diminishing world-wide oil and gas reserves, the price of fossil fuels and rising environmental concerns are enough to make any political leader take energy seriously.

In his new year speech, President Chirac cited energy as France's second industrial priority, and, with typical modesty, declared that "France has the ambition to be a worldwide reference point" for energy. The proposed merger of Suez, the French energy company, with the state-controlled Gaz de France demonstrates the country's continuing commitment to energy independence. So can France really lead the way when EU directives require member states to open their energy markets to foreign competition, and signatories to the Kyoto Protocol are committed to reducing their CO₂ emissions? The answer is that individual countries still have critical choices to make.



The framework for France's future policy is set out in its recent Energy Act, and is articulated around three main themes: diversification of sources, security of supply and environmental protection. President Chirac, armed with a recently acquired but pronounced inclination for environment protection, has given some of its key features a further boost. Thus the production of biofuels will be increased fivefold within the next two years – more than EU objectives specify. A third of public authority cars and buses will have to run on biofuel. In 20 years' time French transport companies will be forbidden from using petrol, and newly-built houses will have to conform to energy-efficiency targets.

The first producer of renewable energy in Europe, France will thus lead the way in energy saving. Tax incentives are in place to promote alternative sources of energy, such as windmills or ethanol. France's emissions of atmosphere-damaging gases are already 40 per cent less than average for developed countries. Moreover, energy efficiency is now regarded as a sector to be explored to develop French R&D capabilities and attract inward investment. Official areas of research include biomass, fuel cells and hydrogen vehicles.

In terms of influencing the energy debate internationally, President Chirac took the lead in October 2005 at the EU's informal summit in Hampton Court, where he invited his counterparts to reflect on "New challenges by which Europe is confronted: energy security and impact on climate change". Following the Commission's Green Paper on energy, France published a memorandum with concrete proposals on European electricity networks and the investment required to fulfill European energy needs.

Such confidence is the consequence of past decisions and future ambitions. That ITER, an international research project demonstrating the scientific feasibility of fusion energy, chose to locate in France has probably boosted confidence. ITER symbolizes French energy policy: nuclear plus research. Two pillars that Nicolas Sarkozy, if elected President in 2007, will certainly not challenge.

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Energy Calendar 2006



APRIL

- **April 3:** National Energy Summit chaired by Chancellor Angela Merkel, in Berlin, Germany.
- **April:** Meeting of the UN Economic Commission for Europe (UNECE) Gas Centre Task Force on Implementation of EU Gas Directives
- **April:** UNECE holds its 11th Gas Centre High Level Conference
- **April 10-11:** "Energy... for the future" conference, organised by The Royal Society, in London, UK
- **April 14:** Last day of the consultation phase for the UK Department for Trade and Industry Energy Review
- **April 25-27:** World Energy Dialogue at the Hanover Trade Fair in Hanover, Germany
- **April 25-27:** "Pipeline Transport 2006" conference, organised by Transneft, in Moscow, Russia
- **April 27:** "European Energy Day", sponsored by multiple organisations, in Königswinter, Germany

MAY

- **May 3-5:** "Energy Congress 2006", organised by the European Energy Institute, in Barcelona, Spain
- **May 8-9:** "Nuclear Energy - Opportunities for Growth & Investment in Europe" conference, organised by Platts, in Paris, France
- **May 8-9:** "2nd LNG Finance Forum", sponsored by Euromoney, in London, UK
- **May 9-10:** "Nuclear Industry Forum", sponsored by the Adam Smith Institute, in London, UK
- **May 16-19:** "Wind Energy" conference in Hamburg, Germany
- **May 17-19:** "Distribution Europe 2006" conference, organised by Synergy, in Barcelona, Spain
- **May 21-22:** "EBRD Annual Meeting and Business Forum" in London, UK
- **May 31-June 1:** "Energy Trading Central & Eastern Europe 2006", organised by Synergy, in Warsaw, Poland
- **May 31-June 2:** "CIS Oil and Gas Summit", hosted by the Energy Exchange, in Paris, France

JUNE

- **June 5-9:** "23rd World Gas Conference", organised by the International Gas Union, in Amsterdam, Netherlands
- **June 8-9:** European Council of Ministers meeting for Transport, Telecommunications and Energy in Luxembourg
- **June 12-15:** "ENERGEX 2006" conference on energy and sustainable development in Stavanger, Norway
- **June 13-16:** "16th World Hydrogen Energy Conference", organised by the European Hydrogen Association et al, in Lyon, France
- **June 21-22:** "3rd Renewable Energy Finance Forum", sponsored by Euromoney, in London, UK
- **June 28:** "Kyoto: At what cost?" forum, sponsored by the IEE, in London, UK

JULY

- **July 6-8:** "Baden-Badener Energiegespräche 2006" conference for industrial energy suppliers and consumers, in Baden-Baden, Germany
- **July 12-16:** "Solar Conference", organised by the Terra Foundation, in Grenada, Spain
- **July 15-17:** G8 Summit in St Petersburg, Russia

AUGUST

- **August 19-25:** "9th World Renewable Energy Conference", organised by the Solar Electric Power Association, in Florence, Italy
- **August 22-25:** "Offshore Northern Seas 2006 – Bridging the Energy Gap" conference, sponsored by Accenture and PennWell, in Stavanger, Norway

SEPTEMBER

- **September 4-8:** "21st European Photovoltaic Solar Energy Conference and Exhibition", organised by WIP – Munich, in Dresden, Germany
- **September 11-13:** "International Energy Audit", conference organised by the Finnish Ministry of Trade and Industry in Lahti, Finland
- **September 12-14:** "2006 European Renewable Energy Policy" conference in Brussels, Belgium
- **September 21-23:** EU Ministerial meeting in Finland on the Northern Dimension

OCTOBER

- **October 23:** "Oil and Gas in India and Russia" forum, organised by the Energy Institute, in London, UK
- **October 25:** "Emart 2006" conference for energy wholesalers in Berlin, Germany

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