

IBEC-CBI Joint Business Council

Regional Economy and Energy Briefing Paper

Ireland, Northern Ireland and Scotland

1.0 Introduction

The IBEC-CBI Joint Business Council (JBC) is a joint business initiative aimed at enhancing cooperation and improving the competitiveness of business on the island of Ireland. The initiative is coordinated by CBI and IBEC, as the leading business organisations North and South. The Council has formed close links with partners in Scotland, including: CBI Scotland, the Scottish Council for Development and Industry (SCDI) and Dumfries and Galloway Council.

The second 2009 biannual plenary meeting of the IBEC-CBI Joint Business Council takes place on Thursday 22 October 2009 in Edinburgh Scotland. The meeting takes the format of an Enterprise and Energy Summit. The Summit builds on the existing links between the regional economies of Ireland, Northern Ireland and Scotland and focuses on the economic opportunity of cooperation on energy policy in both a regional and EU context.

The three Ministers with a remit for energy in their respective regions of Northern Ireland, Ireland and Scotland, Minister Arlene Foster MLA, Minister Eamon Ryan TD and Minister Jim Mather MSP, will join the JBC meeting for a discussion with business leaders which will have a primary focus on energy policy. The JBC policy perspectives on key **shared energy policy issues** for debate are set out in **Section 3**.

This JBC meeting also provides a platform for engagement between Ministers and business leaders on a wider agenda relating to co-operation between the regions on business competitiveness, innovation and jobs. The JBC perspective on the scope for improved **economic co-operation** between the regions is outlined as the following **Section 2**.

2.0 Framing a Wider Regional Response on Business Competitiveness, Innovation and Jobs

It is clear from statements by the three Governments, that promotion of economic co-operation between Ireland, Northern Ireland and Scotland is viewed as a priority. The Scottish Government has been proactive with First Minister Alex Salmond MSP on record as endorsing a more active role for the British Irish Council (BIC), linked with establishment of a permanent secretariat for that body. A decision on the location of the BIC secretariat is expected soon. In terms of developing co-operation structure on the island of Ireland, experience has demonstrated that the business sector plays a key role in shaping the overall agenda and in suggesting interregional policy and investment priorities.

In terms of the institutional structures, there is clearly good co-operation between agencies on the island of Ireland and Scotland, SEUPB and Scotland Europa being a case in point. However, there is little in the way of ongoing co-operation infrastructure, as exists in the case of Ireland and Northern Ireland. In this regard, INTERREG IV, with its tripartite project and funding focus, provides a unique opportunity. As an INTERREG funded organization, JBC is anxious to bolster this approach.

From a European spatial perspective, the three regions face common problems in terms of peripherality, which are complicated by the existence of land and maritime borders and dominance by 'capital regions'. The existence of two currency zones is also a barrier to trade and business and is increasingly coming into focus.

The **Baltic Sea Region** faces broadly similar challenges as our regions. The eight member states of that region have structured a strategic response in the shape of the Baltic Sea Region Initiative which was launched in June 2009. The focus of the initiative goes well beyond the more limited objectives of territorial co-operation, which tend to be bilateral. The Baltic Sea Initiative is one of the main priorities of the Swedish EU Presidency, and the first that has been developed along a '*macro-regional*' approach. It sets out to enhance cooperation between the Baltic Member States in order to tackle specific challenges in the area, in particular environmental problems. Other aims include strengthening competitiveness, developing energy and transport links and improving the region's security, especially in the maritime field.

This more 'supra-national' approach to regional development and economic co-operation has now emerged as a key aspect of EU Regional Policy.

The scale of Regional Policy and other funding allocated to the Baltic Sea Initiative is exceptional, with some €44bn allocated over the period 2007-2013. The biggest sub programme of the initiative relates to Regional Accessibility with €27bn allocated, of which transport initiatives account for €23bn and energy infrastructure €2.6bn.

Discussions are also underway on a new **Macro Regional Strategy for the Danube Basin**. The European Council has asked the Commission to outline plans for a Danube Strategy by the end of 2010 and the Committee of the Regions will shortly adopt a report on the subject.

A question to be addressed in the context of Ireland - Northern Ireland - Scotland, is the extent to which an 'Atlantic Arc' approach may be developed, particularly given the opportunity that the Review of Territorial Cohesion Policy is now well advanced.

Can the organizations represented at the Edinburgh Summit commit to pursuing a macro-regional approach to be brought forward for consideration by the incoming Commission and the new Parliament?

Support for such an approach could also be forthcoming from the Committee of the Regions. In terms of building competitive advantage for the areas concerned, the JBC would prioritise infrastructure investment – particularly transport and energy, in tandem with building innovation and entrepreneurial capacity.

The following sections indicate the policy approach that the JBC recommends under respective area for progress.

2.1 Freight, Transport and Integrated Maritime Strategy

The recently published long term spatial strategy for Scotland's development to 2030, the National Planning Framework 2, identifies port developments on Loch Ryan in Dumfries and Galloway as a nationally significant project. This will provide a modern international gateway between Scotland and Ireland, contributing to the realisation of Scotland's potential as a land bridge between Ireland and continental Europe. The development will deliver increased freight capacity, reduced journey times and increased potential for tourism and help to secure the continued competitiveness of the Loch Ryan to Northern Ireland ferry links. In addition, Ireland's National Spatial Strategy recognises the potential for moving freight through Scotland to avoid congestion on routes to England's East Coast ports and the matter is being pursued by the British-Irish Council.

The SW Scotland Regional Transport Strategy (June 2008) is predicated around the need for both investment in Loch Ryan terminal facilities and more rapid pace of upgrading on the critical A75 section of the TENS-T: Ireland - United Kingdom - Benelux Road Project.

The scope for developing a new TENS corridor linking Belfast and Larne with Glasgow, Edinburgh and Northern Europe can also be considered as a priority in the context of the EU strategic review of the TENS priority corridors that is now underway.

In terms of cross-border links on the island of Ireland, JBC takes the view that the N16-A4 road (Sligo to Belfast via Enniskillen) has particular significance as a corridor providing onward trade and economic links from the North West and other areas adjacent to the border.

There is an opportunity for the work carried out by Dumfries and Galloway Council in the context of the North Channel Partnership, which includes the JBC, to be taken forward in the context of a broader Maritime Strategy for the Irish Sea. This should seek to integrate the respective freight strategies for the regions concerned, and seek to develop a more integrated approach to policy goals including **modal shift**, where the objective is to reduce dependency on road haulage and prioritise **rail freight** and **maritime motorways** where appropriate in the respective regions.

2.2 Renewables - R&D

Challenges exist for our three regions in terms of the research agenda around renewable technologies and energy efficiency. The potential for the island of Ireland plus Scotland to develop as a new energy province, based on exploitation of wind, wave and tidal resources is widely recognised. However in the context of the emission reduction agenda and linked with this, the commercialisation of research, the evidence suggests that research capacity in this field on the island of Ireland is fragmented, underfunded and lacks the capacity or critical mass to impact on the international stage.

In 2008, JBC circulated a proposal for formation of a centrally managed all-island research cluster which would contribute to overcoming research deficiencies. The proposal entails the establishment of a management and administration centre, located at Dublin Institute of Technology with the institute providing accommodation, IT and other services. Under the funding plan, other costs, including payroll, were to be met by private sector sponsors. It was envisaged that the centre will take a lead role, along with governments and energy agencies, in facilitating the process of commercialisation of research in the renewables field. The centre would liaise with key private sector partners, including the investment community, and link also with EU strategic programmes such as Intelligent Energy Europe and FP7.

In the wider context of the three regions, JBC sees potential for bringing this proposal to fruition. Funding has emerged as a significant problem in the current climate and thus we would welcome the active support of the Governments in terms of developing a funding strategy.

If this actual centre is not achievable in the shorter term, a meeting of key stakeholders could be convened to bring together expertise from universities to obtain input with a view to facilitating joint R&D. The model here could for example be the **US-Ireland R&D Partnership**, representing a coming together of various expertise to form a critical mass for co-operative R&D.

Renewables: Industry attitudes survey: In 2007, JBC undertook a unique all island business survey on attitudes to adoption of renewable technologies and energy saving. JBC is committed to running a follow through survey in 2010 and sees potential for extending the sample to include businesses in Scotland.

2.3 Entrepreneurship

JBC is committed to setting up a task force on entrepreneurship in 2010. While the work of the task force will initially focus on Northern Ireland and Ireland, there could be merit in extending its scope to include some of the Scottish regions.

2.4 Economic and Trade Development

Based on the model provided by the 2006 Comprehensive Study of the All-Island Economy, JBC has proposed that an economic and trade study be considered that would focus on the economic performance of Ireland - Northern Ireland - Scotland. The study would provide broad profiles of the three economies with particular reference to productivity rates, public spending profiles, performance in terms of creating and sustaining jobs, plus economic recovery strategies.

3.0. Energy Policy Context

The core focus of this JBC Summit in Edinburgh is the economic opportunity of inter-regional co-operation between Northern Ireland, Ireland and Scotland on energy policy in both a regional and EU context.

Energy, and in particular sustainable energy supply, has become a leading policy issue for business and society. Global pressures associated with energy security, energy costs and climate change are driving significant change in the way we supply and consume energy.

3.1 EU and International Drivers

On the 17th December 2008, the European Parliament approved a package of legally binding measures designed to improve the sustainability of the EU's energy framework. Mandatory 2020 targets adopted in the package include a:

- 20% reduction in EU greenhouse gas (GHG) emissions
- 20% improvement in energy efficiency
- 20% renewable energy share of total energy consumption

In accordance with the targets burden sharing arrangements, the Republic of Ireland must reduce GHG emission by 20% based on 2005 levels and increase the penetration of renewables in energy consumption to 16% by 2020. For the UK, these targets are 16% and 15% respectively. In achieving these targets, the energy package endorses cooperation between Member States at a regional level.

Within the three jurisdictions of Ireland, Northern Ireland and Scotland, targets for renewable energy penetration in total energy consumption have been subdivided into sector specific targets as follows:

2020 Targets	Ireland	Northern Ireland	Scotland
Electricity	40%	40% (proposed)	50%
Heat	12%	10% (proposed)	11%
Transport	10%	10%	95g/Km

In addition to the targets presently set, the UN is seeking to broker an international agreement on climate change abatement. These discussions will conclude in December 2009 at Copenhagen whereupon agreement, the EU has committed to an increased greenhouse gas emissions reduction target of 30%. This will result in commensurate increases in Member State targets.

3.2 Energy Cooperation: The Regional Context

The abatement of GHG emissions is an environmental and social imperative. The business community is fully committed to the achievement of climate change abatement targets. However, business is also cognisant of the need to maintain international competitiveness. Subsequently, in order to maintain competitiveness while achieving our goals, we must seek to harness the economy of scale benefits of cross jurisdictional partnerships.

The welcome completion of the Single Electricity Market (SEM) on the island of Ireland in 2007 has shown the considerable economy of scale and complementary benefits that can be derived through market integration. We must seek to build on the success of the SEM by delivering policy, regulation and investment that seek to harness the opportunities presented by further market integration. Working in partnership enables scaled investment whereby each partner may utilise its indigenous strengths.

To this end, the business communities of Ireland, Northern Ireland and Scotland support the development of an All-Islands energy framework. This framework would incorporate a wider market and infrastructure vision integrating the All-Islands market with a wider regionalised EU market including France, UK and Ireland (FUI).

Closer cooperation between Ireland, Northern Ireland and Scotland is an important first step in this process.

A regionalised energy market offers many advantages to both investors and consumers including:

- Complementary investments to enhance security and diversity of supply
- Greater competition and competitive investment opportunity
- Economies of scale
- A cross-jurisdictional framework supporting the achievement of national and EU climate change policy objectives

3.3 All-Islands Energy Cooperation

The business communities of Ireland, Northern Ireland and Scotland (All-Islands) endorse regional cooperation as a platform to deliver energy targets while maximising economic, environmental and competitiveness opportunities for each jurisdiction. We encourage the political and regulatory institutions of each jurisdiction to work in partnership to develop a **roadmap for cooperation** to competitively achieve energy targets. The roadmap, focusing on delivering internationally competitive energy in the region, must have clear timescales with measurable and achievable milestones.

The **Energy Roadmap** should seek cooperation on the issues which follow:

Market Arrangements

- Short-term measures should be adopted to improve the interoperability of the SEM and BETTA markets. The Governments are encouraged to work with the Regulatory Authorities to improve interoperability of energy markets including issues relating to gate closure and efficient interconnector use.
- At high penetrations of variable renewables, flexible and fast acting supporting generation is required, together with the adoption of smart networks. Markets must adopt the appropriate incentives to ensure the delivery of appropriate complementary generation plant and smart networks.
- A longer term objective of the three jurisdictions must be the integration of the SEM and BETTA markets. A long-term roadmap on market integration should be supported by the three Governments.

Maximising the uptake of energy sourced from renewables

- With one of the best renewable profiles across Europe - Ireland, Northern Ireland and Scotland must work in partnership to harness the potential of this resource, particularly wind, wave, tidal and biomass.
- Onshore renewable resource is the most cost effective in the short term, and governments need to ensure that current infrastructure plans and planning legislation maximise the benefits of this onshore resource.
- Significant carbon abatement and economic potential exists for offshore wind in the Irish Sea. The Governments should deliver mechanisms (e.g. developing supporting grid infrastructure, licensing and consenting processes) to secure the value of this resource.
- Support mechanisms must be adequate to ensure balanced investment.
- Cross-jurisdictional research and development partnerships should be formed between enterprise agencies, industry and academia, focused on commercialising emerging technologies e.g. wave and tidal, biomass supply chains.
- The establishment of Smart Network infrastructure at both transmission and distribution level will allow greater energy efficiency and utilisation of renewable energy. The Governments should explore mechanisms to share and develop knowledge on Smart Grid technology.
- An emerging issue is the need to develop more ambitious targets for the renewable heat market as a means of achieving the emissions targets.

Timely and cost-effective investment in transmission infrastructure

- Onshore transmission infrastructure is critical to economic growth across the jurisdictions not only for renewables but for balanced regional development generally. Coordinated and meaningful political support is required if the current public opposition to infrastructure investment is to be overcome.
- Realising the potential of an All-Islands integrated market will require adequate levels of interconnection. The Governments have a role to ensure assessment and delivery of adequate interconnection.
- Concerns have been raised regarding the cost of delivering energy infrastructure particularly on and offshore grid. The Governments are encouraged to assess the benefits of alternate financing arrangements and seek EU assistance in financing infrastructure facilitating regional market harmonisation.

Ensuring security of energy supply

- Gas will remain a key component of the fuel mix. If the Governments work together then security of gas supply can be maintained at least cost to the consumer.
- In order to maintain system security and stability arising from high penetration of variable renewable energy sources, the Governments should encourage the development of electricity storage and distributed storage.
- The Transmission System Operators should work together assessing the interaction of markets at higher penetrations of variable energy sources.

Develop the energy efficiency and conservation capacities of our regional enterprise sector

- Energy efficiency must be a core pillar of each jurisdiction's effort to address the demands of sustainable energy delivery. To this end, the growth of an energy services industry across the region must be supported. This can be supported through clear statements on energy efficiency policy and fiscal measures.
- The Governments and supporting institutions should work closely sharing learning on effective tools to increase efficiency investment across all sectors. Energy utilities have an important role in delivering energy efficiency and will work with policy makers to implement equitable measures to achieve efficiency targets.
- Smart metering is an essential tool to improving energy efficiency and its roll out must be a policy priority. Smart metering empowers consumers to make rational energy consumption decisions through clear market signals. Furthermore, it enables system planners and operators to maximise the capability of the energy system, reducing the need for investments, thus increasing competitiveness through reduced costs. The Governments should seek to learn from each other's experiences in Smart metering with a view to accelerating the competitive delivery of smart metering in the three jurisdictions.
- We need to ensure we provide sufficient skilled people to take the critical energy issues forward, for example, smart metering and green deal and work with our colleges and universities to do so.

4.0 Conclusion

With increasing dependence on imported price volatile fossil fuels, Ireland, Northern Ireland and Scotland are heavily exposed to the changing global demand for energy resources and ever increasing decarbonisation ambitions. While these obstacles are challenging, we are uniquely positioned. We have one of the best renewable profiles in Europe which not only provides solutions for electricity production but also offers a replacement fuel in heat and transport through the medium of electricity. Transitioning from our current fossil fuel dependence and maximising our renewable resource, cost competitively, is challenging. Scale is a fundamental issue which can best be addressed by seeking to physically interconnect and harmonise our markets within the three jurisdictions. In doing so, economies of scale are improved, our energy portfolio is expanded and more secure, and we can deliver competitive investment and customer pricing.

As a mutually beneficial arrangement, we strongly encourage the Governments to open dialogue and pursue electricity market harmonisation. This will deliver energy security, sustainability and competitiveness to each jurisdiction while providing a sound foundation for future economic prosperity.

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