



# ENERGY UNION PACKAGE

## *Outcomes & Analysis*

25 February 2015

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# 1. Executive Summary

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## What happened?

On 25 February 2015, the European Commission published its Energy Union Package.

## Why does it matter?

The 'Energy Union Package' seeks to shape the EU's approach to climate and energy policy for the next five years. The key documents of the package are two complementing documents: a Communication which defines the objectives of this Energy Union, and a Roadmap laying down the measures, both legislative and non-legislative and the timeframe under which these measures need to be implemented. The Package is also composed of two additional 'side Communications', one on achieving the 10% electricity interconnection target and another on the road to COP 21, the global climate negotiations which will take place at the end of 2015.

## Background: The genesis of the Energy Union

The concept of Energy Union was born in April 2014, when in the wake of Russia's annexation of Crimea and the return of fears of Ukrainian gas transit interruptions in the Central Eastern Europe region, former Polish Prime Minister Donald Tusk (currently serving as President of the Council of the European Union) suggested counterbalancing Russia's dominant position of single gas supplier in Eastern European Member States by creating an Energy Union, a "single European body charged with buying its gas".

However, almost a year later, not much is left of Mr. Tusk's original proposed plan except maybe some of its details. Instead, the new European Commission, under the leadership of Slovak Vice President for the Energy Union Maroš Šefčovič, has taken ownership of the concept, filled it with a large number of repackaged existing ideas but also used the momentum to attach new proposals to the Energy Union train.

## Key questions that remain to be answered

- How will the Energy Union interact with the 2030 Climate and Energy Package?
- How will the Energy governance scheme outlined in the 2030 Climate and Energy Package work? How will this overlap with the Energy Union?
- Will the Energy Union remain a common thread until the end of this Commission, or will represent more a kneejerk reaction to the most recent Ukraine gas crisis?
- How will Šefčovič ensure correct implementation across these various policy areas?
- To what extent will Commissioners responsible for some of the actions outlined be able to provide their own personal touch?

## Key elements of the Package

- The Energy Union is, at its core, **an umbrella term for many different existing and planned initiatives**. Few, if any, of these dimension areas are previously unexplored both politically and in legislation. Indeed, stakeholders are already logically noting that if the Energy Union and EU's 2030 Climate and Energy Framework programmes run in parallel, how will we know which is which and where they overlap? However, there are a number of new developments. In general, we can see the following trends.
  - **A move towards greater 'Europeanization' of Energy Policy:** The Energy Union signifies that unlike in other realms, we are moving towards a greater 'Europeanization' of energy and climate policy. Indeed, while determining one's energy mix remains a national competence, we can expect to see "more of Europe" in energy and climate policy in the coming years, as the Commission is determined to address the continued fragmentation of the Internal Energy Market into 28 entities.

- **A greater focus on consumers:** The Energy Union also outlines the desire for a new energy system for Europe, one which moves “away from an economy driven by fossil fuels, an economy where energy is based on a centralized, supply-side approach and which relies on old technologies and outdated business models” (pg. 2) and instead towards a system which empowers consumers through information, choice and flexibility. However, while the Commission speaks strong on this aspect, its comments are not necessarily backed up by corresponding legislative proposals. Whether or not the tools listed in Energy Union roadmap are enough to make this transition possible remains to be seen.
- **A new Commission Structure:** In simply bureaucratic terms, perhaps the most significant change is the role of Vice-President Šefčovič as a coordinator free from being tied to a single DG, but rather acting as a liaison over a number of policy areas including energy, environment, climate and even transport. This new structure, more akin to the cabinet structures of the UK rather than the traditional European Commission setup, raised a few questions at first, given that the Vice-President/Commissioner relationship was one not been seen before. In public appearances so far, it seems VP Šefčovič gives the broader orientation and defines the objectives of the EU energy policy, while Commissioner Arias Cañete deals with the details of implementation.
- **No binding gas purchasing mechanism:** Perhaps, one of the most significant elements of the Communication is not what is in it, but rather a key idea which the Commission eventually chose to largely exclude. Notably, the Commission, has decided to not to come forward with the previously mooted idea, pushed by Donald Tusk, of a joint purchasing mechanism for gas. Instead, the Commission merely says that it will “assess” options for voluntary demand aggregation mechanisms for collective purchasing of gas. No legislative proposals calling for a joint gas purchasing mechanism are expected.
- **Governance:** To drive progress in these five dimensions, the Commission will launch a wide governance process to ensure coherence between Member States’ actions, make sure the 2030 targets are met, avoid administrative burdens, and report annually to the European Parliament and the Council of the EU.

## The five dimensions of the Energy Union in brief

The Energy Union Package breaks down the EU energy policy into five intertwined *dimensions* for which it identifies challenges and proposes solutions.

1. **Energy security, solidarity, and trust:** This particular dimension is perhaps where greatest focus was placed in the buildup to the publication of the Communication; however few novel ideas are proposed to address Europe’s energy security challenges.
2. **A fully integrated European energy market:** This dimension is portrayed as the backbone of the Energy Union, the one without which none of the other dimensions’ objectives are achievable.
3. **Energy efficiency contributing to moderation of demand:** Energy efficiency has been portrayed as the ‘first fuel’, the ‘low-hanging fruit’ to decrease the EU energy bill while reducing reliance on foreign suppliers. The Communication reinforces this narrative, calling for a more customer-focused energy strategy.
4. **Decarbonising the economy:** Although presented as equals, this particular dimension – once the ultimate objective of the EU energy policy – seems to come second only to that of Energy Security in the Communication.
5. **Research, Innovation and Competitiveness:** Undoubtedly the weakest dimension of all in terms of ‘substance’, R&D is nevertheless portrayed as the ‘enabler’, where the new technologies and jobs will emerge, making the EU the world leader in clean energy.

## Next Steps

- The Energy Union Package will be discussed by Heads of States at the European Council on the 19-20 of March.
- Legislative proposals will be forthcoming over the next five years (a detailed overview is provided in the next section). The majority of key legislative proposals however will take place in 2015-2016.

## 2. Key Legislation in the Pipeline for 2015-2020

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### Infrastructure:

- **2015:** Communication on the progress towards the completion of vital energy infrastructures and on the necessary measures to reach the 15% electricity interconnection target for 2030

### Electricity

- **2015-2016:** Proposal for a new power market design and regional electricity markets
- **2016:** Review of the Directive on Measures to Safeguard Security of Electricity Supply

### Gas

- **2015-2016:** Review of the Security of Gas Supply Regulation
- **2015-2016:** LNG and natural gas storage Strategy

### Regulatory Framework

- **2015-2016:** Review of the ACER and energy regulatory framework

### Renewables

- **2016-2017:** Review of the Renewable Energy Directive, including a new Directive for 2030
- **2016:** Communication on Waste-to-Energy

### Climate Action

- **2015:** Legislative proposal to reform the EU ETS
- **2016:** Legislative proposals on the Effort-Sharing Decision and the inclusion of LULUCF into the 2030 Climate & Energy Framework

### Transport

- **2016-2017:** Review of Regulations setting emission performance standards to establish post-2020 targets for cars and vans, and establishment of a monitoring and reporting system for heavy duty vehicles (trucks and buses)
- **2017:** Communication on decarbonizing the transport sector, including an action plan on alternative fuels

### Energy Efficiency

- **2015:** Review of the Energy Labelling and Ecodesign Directives
- **2016:** Review of the Energy Efficiency Directive
- **2016:** Review of the Energy Performance of Buildings Directive

### Heating and Cooling

- **2015:** Heating and Cooling Strategy

### External Energy and Climate Policy

- **2015:** Memorandum of Understanding on an upgraded strategic partnership with Ukraine

### Industrial Competitiveness

- **2016** and every two years thereafter: Study on energy prices and costs

### Cross-cutting measures

- **2015-2016:** Report on the European Energy Security Strategy
- **2017-2019:** Review of the State Aid Guidelines for environmental protection and energy

### Nuclear

- **2015:** Council Regulation updating the information requirements of Article 41 of the EURATOM Treaty

### 3. Stakeholder Reactions

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Perhaps the defining aspect of the Energy Union is its all-encompassing nature. Defined by its vagueness, especially in advance of the announcement, it has given stakeholders from across the political, NGO and business spectrum a chance to define in broad terms their ambitions for EU's climate and energy policies. Taken as a whole, these stakeholder reactions give a key insight into what those outside the Commission are hoping for, as much as the proposals do for those inside.

#### Industry

- Industry, in general, has cautiously welcomed the proposals. Far from initial fears of common gas purchasing, or more stringent climate action policies being snuck in ‘through the back door’, the Commission proposal is an agreeable step towards more liquid energy markets. This, organisations like [Eurogas](#), [GasNaturally](#) and [Eurelectric](#) agree, should lead to increased price convergence, lower prices overall, and a predictable regulatory climate. Despite what [some](#) interpreted as a snub to the nuclear industry, [Foratom](#) seemed mostly satisfied by the document, though it did not publish a full statement.
- The [wind](#) energy sector was especially pleased, mainly due to renewed commitment by the Commission to a RES strategy reaching beyond 2020. They also noted the importance of a power market more suited to the intermittent qualities of renewables. However not all renewables were so pleased, with the [European Biomass Association](#) disappointed that the document “failed to recognise” the importance of renewables in heating and cooling, leaving an IEM focused entirely on electricity and gas.
- [EuroACE](#), a trade association for energy efficiency in buildings, was less pleased at the Commission's unwillingness to expand upon the targets previously set out by October's Council Conclusions on the 2030 framework. In their release they said “the Energy Union Package falls short of setting urgent and ambitious actions to address this wastefulness in our buildings.”
- [BusinessEurope](#), the largest trade association in Europe, published a clipped statement in which the only issue they explicitly referenced was about a broad concern for competitiveness. “What we expect is concrete action on the challenge of high energy prices, which is undermining the competitiveness of our industry”.

#### NGOs

- Global NGOs, including [Greenpeace](#) and [Friends of the Earth](#) were frustrated by the communication's seeming focus on gas. [WWF](#) perhaps summed up the criticism best by pointing out the supposed contradiction of a document which on the one hand explicitly rejects fossil fuels as a viable long term energy source, while at the same time discussing at length the need to reinforce supplies of gas and nuclear fuels.
- On the civil society side, the [European Consumer Organisation](#) was focused on the importance of citizens in the Energy Union. In addition to common issues, such as reviews of the Ecodesign and Energy Labelling Directives, and increased choice in the energy market, they also requested a commitment to assist consumers who produce their own electricity to “benefit from reliable rules and guarantees on their investments.”

#### European Parliament

- Unsurprisingly, the [Greens/EFA](#) group termed the Energy Union “an inauspicious start” to the EU's climate and energy future. Claude Turmes and Bas Eickhout published a piece which highlighted similar issues to the NGO opinions discussed above.
- The ALDE group has been very [active](#) on issues surrounding the Energy Union, holding a launch of their own [strategy](#) the day before the formal announcement. Focusing on the Energy Union as a way to distance Europe from Putin's reach, they said in their [reaction](#) to the final proposal that “the true test of the Energy Union will be overcoming the current fragmentation of energy policy into 28 different systems”.

- The main political groups stayed the course they've been plotting in recent months, with the [EPP](#) welcoming the Energy Union as a way to reduce energy costs, and the [S&D](#) taking a centrist line on enhanced energy security and a reinforced climate focus.
- Interestingly, the EFDD did not publish a statement, perhaps due to a rift in the party between the greener Italian members and the climate-sceptic UKIP delegation.

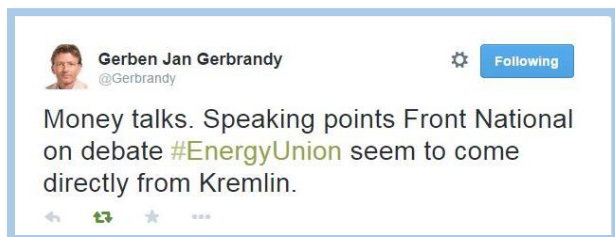
## Member States

- While Member States were not issuing press releases with the rest of the stakeholders today, they have been keen to make their positions clear in the run up to the announcement.
- The [UK](#) and [Czech Republic](#) have both published position papers on the Energy Union. For their part, the UK has reasserted the benefits of natural gas (including shale gas) which they say is a key tool for reducing carbon emissions. They have also joined with the Czech Republic in a non-paper calling for a “comprehensive CCS strategy”, stronger support for nuclear and “effective and transparent light touch governance structures” in order to reach the 2030 targets.
- [Germany](#), however, has put itself against this opinion, saying the Energy Union must be bolstered by binding EU laws. It has also directly asked for laws that go above and beyond the 2030 Framework, including binding renewables targets. It also said that “all efforts” must be made to implement the MSR by 2017.
- For its part, Poland has not made public statements on the issue, but it is clear that its vision is of a union much more energy security focused, rather than climate focused. It relies deeply on coal for power production, and RES targets and a high carbon price could, they argue, undermine competitiveness. This is symptomatic of a divide in priorities between East and West when it comes to EU energy policy.

## 4. The Twitter Sphere

**#EnergyUnion** was a top trending hashtag on twitter in the hours following the announcement, with users generally positive. However, the vast range of topics covered in the Communication left little of the pointed discussion that followed the October 2030 Council Conclusions. With so much covered, there was enough for everyone to take a quote they liked or disliked and send it into the twitterverse, but oftentimes these messages were lost in the crowd, and we saw little real engagement.

Some of the tweets from various stakeholders picked out below show that the Twitter discussion ranged from the Commission's supposed pro-gas stance, its lack of action vis-à-vis Russia or how the Energy Union can reinforce the EU's stance ahead of the Paris global climate negotiations.







- **Diversifying energy sources, suppliers, and routes:**
  - The Commission reasserts the importance of the Southern Gas Corridor which could help access natural gas supplies from Central Asia. It also recommends the establishment of liquid hubs for natural gas in Central and Eastern Europe as well as in the Mediterranean, based on the Northern European hub model. Additional measures to reduce the EU's oil consumption and increase transparency in uranium trade will be proposed.
  - Financial and administrative support will be provided to build the **infrastructure** necessary to bring these new natural gas volumes to Europe and allow their circulation within the EU. The new European Fund for Strategic Investment in particular will be mobilized, along with other existing financial instruments.
  - An **LNG strategy** will be put in place to remove obstacles to imports from countries such as the US and to explore how LNG can serve as backup in case of pipeline delivery interruptions. The regulatory framework for gas storage will be adapted to ensure a sufficient level of supply in the winter.
  - The Package recognises the contribution to energy security of energy produced within the EU, be it from renewables, or conventional or **unconventional hydrocarbon resources**.
- **Working together on security of supply:**
  - The Commission will review the Security of Gas Supply Regulation and propose regional and national **prevention and emergency plans** to respond to supply interruptions by strengthening solidarity among Member States.
  - Acceptable risk levels for electricity supply interruptions will be established in cooperation with Member States. The Commission stresses that **capacity mechanisms** should only be put in place where the regional system requires it.
  - Voluntary **common gas purchasing** options will be assessed by the Commission. Once at the core of the Energy Union, this idea **created a strong divide** between Western European Member States willing to protect market rules and Eastern European Member States who rely for most if not all of their natural gas imports on Russia and who would want to see their negotiating power increased. **No legislative proposal is expected on this issue.**
- **Stronger European role in global energy markets**
  - The Commission will seek provisions contributing to energy security when negotiating trade agreements with third parties. Strategic partnerships will be established with countries such as Algeria, Turkey, or Turkmenistan. The **relationship with Russia** will be reframed on the basis of market and environmental rules.
  - The **Strategic Partnership with Ukraine** will be reviewed to address issues of market reforms, gas network upgrades, and energy efficiency.
- **More transparency on gas supply**
  - The Commission will review the **Intergovernmental Agreements** Decision to explore the possibility of standard clauses and to seek a more active role in their negotiation by Member States, in order to ensure compliance with EU competition rules and security of supply criteria.

## 2. A fully integrated internal energy market

The Commission acknowledges the EU's failure to establish a well-functioning Internal Energy Market in which energy flows freely from one country to the other, and looks at five solutions to achieve the latter's completion.

- **Hardware: connecting markets through interconnections**
  - The Commission will encourage investments in **priority infrastructure projects** through the European Fund for Strategic Investment (EFSI) and other instruments such as the Connecting Europe Facility and Regional funds. More **coherence** will be sought in order to target key projects and reduce administrative burdens. An annual report will be drafted to report on the progress made towards meeting the 10% interconnection target.
- **Software: implementing and upgrading the legislation.**
  - The Commission will insist on the implementation of the **Third Energy Package** by Member States, with particular attention to the unbundling of production and transmission activities, and to the independence of regulators. Access to certain financing will be conditional to compliance with EU regulations.
  - With this in mind, the Commission proposes to strengthen the decision-making powers of **ACER** and allow it to deal more effectively with cross-border issues (mainly network codes) and development of internal market rules.
  - The Commission will ensure that **capacity markets** and **subsidy schemes** are in conformity with competition rules and the EU State Aid Guidelines.
  - A legislative proposal to reform the **power market design** is expected in 2015-2016, to ensure that new power generation sources are well integrated into the system and that consumers can play an active role through demand response.
- **Enhanced regional cooperation within a common EU framework**
  - The Commission will make it its priority to enhance cooperation in **vulnerable areas of the EU** such as South-Eastern Europe, with the aim of accelerating their integration into the rest of the grid and to enhance the resilience of their energy systems. The creation of liquid regional trading hubs in those parts of the EU will also be high on the Commission's priority list, with the long-term objective of achieving a fully-connected internal energy market.
- **A new deal for consumers**
  - The Commission will support the deployment of **smart meters** in Member States in order to allow EU citizens to take an active and rewarding role in the realisation of energy savings.
  - The Commission will seek to phase out sub-cost **regulated energy prices** by 2016 which prevent the emergence of new market players and are a burden for public finances, energy companies, and the consumers who not benefit from the lower energy costs.
- **Protecting vulnerable consumers.**
  - The Commission suggests that the phasing-out of such regulated prices be accompanied by measures to protect the most **vulnerable energy consumers**, either through the welfare system of Member States or through solidarity measures or discounts.

### 3. Energy efficiency to moderate energy demand

Energy efficiency has been hailed over the past few months as the “low-hanging fruit”, the “silver bullet” to drastically reduce the EU's reliance on Russia; the Commission's own rhetoric regularly made such parallels, although it also pointed to energy efficiency as a means to lower consumers' energy bills. The Commission identifies two major sectors in which energy consumption should be reduced:

- **The Buildings sector**
  - The Commission notes that the majority of natural gas imports are used for **heating and cooling** of buildings, where “huge” efficiency gains can be made. With this in mind, the Commission will seek to facilitate financing for energy efficiency improvements while trying to integrate small-scale efforts into wider programs in order to reduce costs and attract investors.

- **The Transport sector**
  - With the same logic of reducing emissions and reliance on imports in mind, the Commission pushes for tighter **CO<sub>2</sub> emissions and efficiency standards** for passenger cars and vans.
  - The Commission will also promote a switch to **alternative fuels**, without specifying which ones it refers to (these probably refer to **biofuels** but could include **natural gas**). The Package pushes for an **electrification** of the transport sector in order to decrease oil imports and reducing emissions in urban areas.

## 4. Decarbonisation of the Economy

In this particular dimension, the Commission links the issue of GHG emissions to that of energy security by using the “fossil fuels import” link. Most of it however is a reiteration of the 2030 Climate & Energy objectives agreed at the October 2014 European Council conclusions.

- **An ambitious EU Climate policy**
  - On **COP21**, the Commission states its intent to make full use of its diplomacy to engage with other global actors to find an ambitious agreement ahead of the December 2015 Climate Conference in Paris.
  - The Commission will propose a reform of the **ETS** in order to adapt it to the current market conditions and make it a truly efficient tool which drives investment in low-carbon and energy-efficient technologies while protecting European industry from carbon leakage.
- **Becoming number one in renewables**
  - The Commission reiterates the EU’s commitment to becoming the world leader in **renewable energy** sources, both in terms of electricity production and in technological advances.
  - To do so, the Commission notes that the EU energy **market and grid** would have to be ready to integrate renewables. In the continuity of the latest State Aid Guidelines published in 2014, the Commission reiterates the need for subsidy schemes to be market based and to aim at resolving market failures in a cost-efficient manner.
  - On **biofuels**, the Commission stresses the need for their development to be sustainable, taking into account the impact on environment, land-use, and food production.

## 5. Research, Innovation, and Competitiveness

The Package underlines the importance of R&D&I’s role in enabling the delivery of the other four dimensions. In this section, the Commission mentions the opportunities for growth and jobs offered by the energy transition and predicts the emergence of new business models, sectors, and profiles.

- Overall, it seems the Commission seeks to refocus investments in R&D&I in **key technologies** which require help to emerge, which can deliver the highest added-value, and which will contribute to making the EU a leader in renewable energies.
- Investments in R&D&I will be directed at renewable energies, smart grids, and energy efficiency. The Commission recognizes the potential contribution and importance of **Carbon Capture and Storage** but seems to indicate that the ETS will remain the main driver for CCS investments.
- Finally, in order to identify the key technologies in play and those which are have yet to emerge, the Commission will update the **Strategic Energy Technology Plan** to ensure better Member State coordination in their R&D&I efforts.

## 7. Governance

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One particularly sensitive issue on which the Energy Union Package provides very few insights on is that of Governance. Ever since the idea of an Energy Union was born, even in its “Tusk version”, questions were raised about governance: who or what would make sure that these measures were implemented and objectives achieved? How big a say would the Commission have in Member States’ negotiations with third countries? What role for the Parliament? The very sensitive nature of the issue is probably the reason why the Package provides so few details: everything remains to be negotiated.

So far, the Commission merely lays down the objectives of this “dynamic governance process”:

- More coherent policy-making to attract investors
- Implementing past legislation and delivering on the 2030 targets and objectives
- Streamlining planning requirements to reduce administrative burdens
- Engage and consult with stakeholders to secure their active engagement
- Deepen cooperation between Member States, starting at the regional level
- Improve the EU’s data collection capacity to better serve the Energy Union’s goals
- Report annually to the European Parliament and Council of the EU to ensure key policy issues are addressed in the energy debate.

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### FH Brussels Energy Practice

*Energy has become one of the most important policy areas in the European Union. Business critical issues like market regulation, energy security, climate change, infrastructure, energy efficiency and the development of new technologies (renewable, nuclear, CCS) are shaped by the European Union and its policies. The FleishmanHillard energy team has specific experience on communicating on energy issues, working with clients across the sector (gas, nuclear, renewable energies, electricity production, etc.). Our team is an excellent combination of strategic sector expertise with a strong public affairs and communications track-record.*

*For more information about our company and its services, contact Esther Busscher at [Esther.Busscher@fleishmaneuropa.com](mailto:Esther.Busscher@fleishmaneuropa.com).*