

The Energy Union

Background and Progress

03/02/2015

“We need to pool our resources, combine our infrastructures and unite our negotiating power with third countries”

With these words new Commission President Juncker outlined his vision for the Energy Union. A direct reaction to the escalation of the Russia-Ukraine conflict in 2014, the issue of energy security has been pushed into the political limelight. With the creation of a new ‘Energy Union’ portfolio, Juncker decided to place energy security along with issues such as the lack of interconnection in the EU energy market, Europe’s climate goals, and energy pricing under the all-encompassing umbrella of the Energy Union. In this briefing we outline both what the Energy Union is and what it is not. Indeed, early drafts of both the upcoming Energy Union Communication and accompanying Action Plan give a clear indication of what we can expect when the Commission comes forward with its Energy Union strategy on 25 February.

In this briefing, you will find more details on:

- + The **five dimensions of the Energy Union**; Security of Supply, the Internal Energy Market, Energy Efficiency, Decarbonisation and investment in Research and Development.
- + The accompanying Energy Union **action plan**; More concrete than the Communication, the action plan will outline detailed information over the proposal and initiatives we can expect in the Climate & Energy realm in the coming years.
- + **Stakeholder reactions**; Details on how EU institutions such as the European Parliament (EP) and individual Member States, as well as broader stakeholder community including industry and environmental NGO’s have reacted to the Energy Union.

THE ENERGY UNION: A REPACKAGING OF EXISTING INITIATIVES?

The Energy Union has been structured around five areas, detailed below.

It is important to note that **few, if any, of these dimension areas are previously unexplored both politically and in legislation**. The Energy Union is, at its core, an umbrella term for many different existing and planned initiatives. Indeed, already stakeholders are 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 do they overlap?

In addition, it is important to note that Šefčovič’s version of the Energy Union is **very different to the concept originally proposed by current Council President and former Prime Minister of Poland Donald Tusk**. Unlike Tusk, who viewed the concept of an Energy Union predominantly as a mechanism to reduce concerns over security of gas supply in the Central and Eastern European (CEE) region, Šefčovič has largely shunned indigenous energy sources such as coal in his Energy Union plans. Nevertheless, for Šefčovič, a native of Slovakia, a Member State with a high dependency on imported Russian gas, security of supply remains a key dimension and a priority for the Energy Union. This is in stark contrast with the Barroso years, where most attention was given to decarbonisation, dominated by decisions over the 20-20-20 targets and the reduction of emissions.

In simply bureaucratic terms, perhaps the most significant change is the role of VP Šefčovič as its coordinator, as **he is free from being tied to a single DG**, rather acting as a liaison over a number of policy areas including energy, environment and climate. This new structure, more akin to the cabinet structures of the UK rather than the traditional European Commission setup, poses a number of new challenges **and without the expertise of service level policy officers** to aide, it is unclear how Šefčovič will fare in the role. In addition, much will depend on the relationship between Commissioner’s Šefčovič and Arias Cañete. The Vice-President/Commissioner relationship is one that has not been seen before, but could prove a useful way to create coordinated policy. Looking ahead, they will need to find a way to work together to maximise the potential of this concept.

FIVE DIMENSIONS OF THE ENERGY UNION

1. Enhancing Energy Security

The EU currently imports more than half of the energy it consumes, a bill totalling €400 billion a year. With a heavy reliance on a single supplier of gas (Russia) in the East-Central European region, the European Commission has invested much time and political capital in seeking to **diversify supply routes and sources of supply in the region**.

In the energy security dimension, the most novel concept is that a **common gas purchasing** has been mooted as a way for the EU to increase the weight it carries with third country suppliers (most notably Russia). Similar mechanisms are used for LNG in Japan. However, it remains a very novel concept for pipeline gas and while this would certainly have an effect on gas prices. There remains much scepticism on the practicalities of this mechanism, with the legal aspects far from certain and most energy majors harbouring strong reservations. In a hearing before the ITRE committee late January VP Šefčovič suggested that the Commission's current train of thought is to enact a type of **trigger mechanism**, which would enact common purchasing in times of high uncertainty (e.g. 2009).

Key action plans

- **Ongoing:** Exploring gas purchasing mechanism
- **2015-2016:** Review of the gas security of supply regulation

2. Single Internal Energy Market

The Internal Energy Market (IEM) has been a working project for a number of years, in line with other single market initiatives. 2014 was the deadline for the completion of the IEM, a target that the EU did not achieve. The principle is that energy should be shifted easily around the continent, increasing security of supply and driving down prices through increased competition.

The barriers to success so far have been twofold, "hardware and software":

- **Hardware:** "Hardware" alludes to the physical means of shifting energy around the continent, the capability of which varies greatly depending on location. The Iberian Peninsula, for example, is highly disconnected from mainland Europe, a fact which means it relies almost solely on the energy it domestically produces. Ideally, greater **interconnection** would mean they could sell excess energy off the grid to neighbouring France during times of overproduction, and vice-versa. Indeed, in conjunction with the Energy Union Communication, the Commission will come forward with a Communication on 25 February on how to achieve the 10% electricity interconnector target for 2030 across the EU.
- **Software:** "Software" refers to the need **to harmonise regulations** for grid operators. To that end, some have suggested giving more powers to cross-border institutions such as ACER.

Key action plans

- **Ongoing:** Explore further initiatives to tackle high energy prices
- **Late 2017:** Evaluation of the current Environment and Energy State Aid Guidelines

3. Energy Efficiency

Seemingly the silver bullet for reducing greenhouse gas (GHG) emissions and enhancing energy security, energy efficiency is one of the most discussed issues in the project. The Commission is working in a number of areas in this field, the biggest challenge for Šefčovič will be trying to mobilise **private investment in the buildings renovation sector** and overcoming the bureaucratic and administrative barriers to what has long been a 'win-win' solution to the EU's Climate & Energy challenges.

The issue of energy efficiency will provide an interesting case study of the new Commission. While MEPs have argued for direct investment from the EU into energy efficiency and renovation, through various EU schemes, the **Commission's emphasis on subsidiarity** leads them to believe that the key decision on energy efficiency projects, are best made at a more local level. At present, Šefčovič has suggested that his team are working on an off the shelf strategy which could be distributed to municipalities, helping them to mobilise private investment.

Key action plans

- **Ongoing:** Review of article 6 and 7 of the Energy Efficiency Directive (Buildings sector mostly)

4. Decarbonisation

The key instrument to achieving the 40% GHG reduction target remains the EU Emissions Trading Scheme (ETS). While the EU is on target to achieve its GHG reduction targets for 2020, the current low price of ETS allowances has failed to provide the necessary incentives to encourage low carbon investment and a reform of the system aimed at propping up the price of allowances is currently underway.

EU ETS reform will take place in two stages, firstly Market Stability Reserve is expected to be agreed upon in Q2 2015, taking excess permits out of the pool with the aim of pushing up the trading price of CO₂. What remains unclear is the possibility of moving forward the start date for the Market Stability Reserve from the initial proposal of 2020 to 2017.

A proposal for wider ETS reform will come **“very soon”** (Šefčovič) after the MSR is agreed upon, most likely in Q3 2015. The main contours of this reform are outlined in the October European Council conclusions, with an increase in the linear reduction factor, to 2.2% from the current 1.7%. Carbon leakage will be a continuing facet of climate policy, with the Commission likely to try and **reduce the number of sectors currently on the list**. In the absence of concrete information from the Commission rumours have circulated on the possibility of a **three tier allocation system**, similar to that of California. With this should come a review of benchmarks and compensation for energy-intensive industry for the indirect costs of the ETS at EU level, and a renewed NER 300 facility. Finally there will likely be the creation of a new ‘modernisation fund’ of 2% of EU ETS to compensate poorer Member States.

Looking ahead, focus will be on the Paris 2015 COP Summit, where Cañete will represent the Commission alongside High Representative Mogherini. The Commission is currently pushing for a legally binding agreement, which should mitigate the risk of carbon leakage from the EU. Also planned for 25 February, the Commission will issue a ‘Roadmap to Paris’, where it will outline the EU’s ambitions for the COP21 Climate summit.

5. Research and Development

The EU is attempting to compensate for the **chronic underinvestment** which has plagued research over the past years. In shifting away from financially supporting mature renewables, the EU is instead focusing on the development of **new technologies**.

STAKEHOLDER REACTIONS

Industry

While industry in general is supportive of many of the proposals, especially those which might bring down the cost of energy, there are a number of concerning areas. For energy companies, the prospect of **common gas purchasing** is one with which they have expressed substantial unease. Furthermore, there is some concern that the Energy Union proposals will try and implement **more stringent climate policies** “through the backdoor” than already agreed upon in the 2030 framework, especially in the areas of renewables and energy efficiency.

Parliament

The European Parliament has been especially concerned with the issue of governance. They are worried that the Energy Union will be steered from the Berlaymont with little input from MEPs. VP Šefčovič has gone some way to allaying concerns, saying that the EP will be the first place he goes when the proposal is published. Nonetheless MEPs from across the spectrum are calling for recognition as **“co-legislators”** rather than simply opinion givers.

The **Greens/EFA** have been vocal throughout the process, calling for a renaming to the ‘Climate and Energy Union’ among other things. They have released a [policy paper](#) which details a number of their concerns and hopes. In addition to what’s contained within, they’ve called for a **removal** of the treaty article which guarantees **member states control of their own energy mixes**, a measure they say blocks proper reforms.

Among other groups, most have been generally accepting of the measures put forward so far but have yet to come forward with their own internal Energy Union policy papers.

Member States

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.

TIMELINE

VP Šefčovič will present the Energy Union proposals on the 25th of February. It will then be discussed by Heads of States at the European Council on the 19-20 of March. Following this, it will be translated into legislative proposals, which will coincide with those published as a result of the agreement reached last October on 2030 energy and climate objectives.

KEY QUESTIONS THAT REMAIN TO BE ANSWERED

- How will the Energy Union interact with the 2030 Climate and Energy Package?
- Is there a legal basis on the gas purchasing mechanism?
- How will the Energy Governance scheme outlined in the 2030 Climate and Energy Package work? How will this overlap with the Energy Union?
- How will indigenous sources of energy (i.e. shale gas) be featured?
- 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 crises.

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](#)