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The European Energy Union: Slogan or an Important Step towards Integration?

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What is a Good Society? For us this includes social justice, environmental sustainability, an innovative and successful economy and an active participatory democracy. The Good Society is supported by the fundamental values of freedom, justice and solidarity. We need new ideas and concepts to ensure that the Good Society will become reality. For these reasons the Friedrich-Ebert-Stiftung is developing specific policy recommendations for the coming years. The focus rests on the following topics:

- A debate about the fundamental values: freedom, justice and solidarity;
- Democracy and democratic participation;
- New growth and a proactive economic and financial policy;
- Decent work and social progress.

The Good Society does not simply evolve; it has to be continuously shaped by all of us. For this project the Friedrich-Ebert-Stiftung uses its international network with the intention to combine German, European and international perspectives. With numerous publications and events between 2015 and 2017 the Friedrich-Ebert-Stiftung will concentrate on the task of outlining the way to a Good Society.

For more information on the project:
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AT A GLANCE

The creation of the European Energy Union is a central project of the Juncker Commission. The broad definition of an Energy Union – which includes energy efficiency and climate protection, security of supply and competitiveness – may enable the European Commission to facilitate a radical compromise between the member states. Because Germany's energy and climate policy goals can be realised only within the European network, the country ought to play an active role in this process.

The Energy Union is a political concept coined in April 2014 by the then prime minister of Poland, Donald Tusk. The concept is derived from projects that strengthen communitisation, for example those in response to the European banking crisis (in particular a banking union and a capital markets union). These projects share a common element, namely the bundling of various measures to improve the control of systemic risks at the European level. Donald Tusk's proposal for the creation of an energy union was motivated by concern for the security of Europe's energy supplies in the context of the Russian-Ukrainian crisis. The Polish proposal was quickly seen by other member states, the European Commission, the energy industry and civil society as an opportunity to discuss a fundamental reorientation of European energy policy.

REASONS FOR AGREEMENT ON THE CONCEPT

There are several reasons why the concept of an energy union has had such a huge impact. To start with, 2014 was an important year for European energy policy. The European energy and climate goals for 2030 were agreed, the term of office of the Barroso Commission expired and the internal energy market was supposed to be completed. In addition to these energy policy milestones, a review of the energy and climate policies of the previous ten years was undertaken. This made clear that the European internal energy market is drifting apart in important aspects, Europe's security of supply is still not secured and energy prices are substantially higher than for example in the USA. It also had to be admitted that Europe's pioneering role in climate change has failed to produce an international agreement. In other words, the implementation of the energy and climate targets adopted in 2008 (20 percent renewables, 20 percent increase in energy efficiency and 20 percent reduction in greenhouse gases) and the third internal market energy package have not been sufficient to strengthen the sustainability, supply security and competitiveness of European energy supplies. Hence, it was only natural that in 2014 a discussion about a possible reorientation of the instruments and objectives of European energy policy got underway.

Furthermore, since taking office on 1 November 2014 the Juncker Commission has sought to set new priorities. The

fact that Donald Tusk, the "originator" of the Energy Union, was chosen as President of the European Council is almost certainly one reason why the Juncker Commission is treating the cause of the Energy Union as a priority. For instance, it created a new position of Vice-President for Energy Union, to which Maroš Šefčovič, a Slovak, was appointed. His task is to steer and coordinate the work of the European Commissioners for Transport, Internal Market, Research, Science and Innovation, Agriculture and Rural Development, Climate Action and Energy, Environment and Regional Policy with respect to realising a European Energy Union.

Similarly, it also helped the concept of an energy union that this far-reaching discussion was triggered by Poland – which on account of its particular interests in energy policy (subsidies for the coal industry and the lowest possible reduction limits for greenhouse gas emissions) had generally been perceived as an inhibiting factor in European energy matters. Consensus on the concept was also helped by the relatively vague formulation of policy measures, and even problem areas. Correspondingly, several member states and many external actors presented proposals on very different aspects of energy policy. The original Polish proposal included above all measures to increase energy security. In particular, Tusk proposed the creation of a single European body to buy gas and to confront Russia's market power as well as a more positive reassessment of the role of local fossil fuels such as coal and shale gas. The United Kingdom and the Czech Republic took up the concept of an energy union in a non-paper in which they demanded that Brussels' influence in energy policy be reduced. By contrast, a German non-paper emphasised the necessity for a strong collaboration in the fields of energy efficiency and climate change. Finally, industry associations, NGOs and think tanks invoked the concept of an energy union to propagate their ideas for European energy and climate change policies.

CHALLENGES FOR EUROPEAN ENERGY AND CLIMATE POLICY

The debate about energy union identified five fundamental challenges for the European energy and climate policy.

The starting point of the debate on energy union was the question of security of supply, which had become particularly acute against the backdrop of the Russo-Ukrainian crisis. The main concern in this regard is that dependence on Russian natural gas may restrict the scope of the EU and its member states to conduct foreign policy. Various actors have very different answers on how to strengthen Europe's energy security. These include developing other sources of natural gas, both non-European and local (shale gas), ramping up use of coal and nuclear energy, decreasing demand for energy and switching to renewable energies.

A second challenge is the growing renationalisation of energy and climate change policy in the EU. The importance of European instruments such as emissions trading and crossborder electricity trading has declined in recent decades. Investment decisions are increasingly driven by national considerations (grid expansion, promotion of renewables) or national markets (capacity markets). Apart from the inevitable

conflicts arising from the non-coordination of actions, renationalisation has also made private investors more cautious owing to the lack of reliable framework conditions.

The greatest long-term challenge is the sustainable transformation of the energy system. In the electricity sector alone this requires far more than just replacing fossil-fuel power stations with emission-free power stations. It is becoming increasingly clear that a CO₂-free energy system will fundamentally change the interplay of consumers, generators, infrastructure providers and information service providers. However, at this stage it is impossible to predict the ultimate shape of this system (e.g. decentralised vs. centralised energy generation) and who will be responsible for coordinating it (e.g. grid operators, traders or information service providers). The European regulatory framework will play an important role in the form of the transition path.

Lower energy demand will make an important contribution to increasing the security of energy supplies and reducing greenhouse gas emissions. Efforts to achieve similar targets in the past fell well short of the mark. An important consideration in this respect is the question of which measures should be adopted at the local, regional, national and European levels, respectively. For instance, it does not seem sensible to set the same insulation standards for buildings in southern Italy and northern Sweden. Similarly, it would not be desirable for efficiency standards for electrical appliances to vary from one member state to another.

A further challenge for the European energy policy is ensuring competitiveness in the energy industry. In this regard it is often noted that energy prices in the USA and Europe differ widely, which makes Europe less competitive in energy-intensive industries. That said, it is often overlooked on the one hand that price differentials are a consequence not only of differences in energy policy, but also of differences in resource availability and on the other that the pursuit of new energy technologies (in particular renewable energies) enhances Europe's competitiveness in this global market of the future. In other words, the challenge for European energy and climate policy is to maintain a minimum degree of competitiveness in energy-intensive sectors, while at the same time maximising future opportunities in new technologies.

NEXT STEPS

Hence, the Vice-President for Energy Union in the EU Commission had the task of drawing up an ambitious, but not unrealistic proposal for an energy union that would address the aforementioned challenges. On 25 February, little more than 100 days after the start of the new legislative term, an 18-page proposal was presented¹ and on 19 March the European Council accepted the Commission's framework strategy.²

To build an energy union the EU Commission proposes a strategy based on five dimensions:

1. energy security, solidarity and trust;
2. a fully integrated European energy market;
3. energy efficiency as a contribution to moderating demand;

4. reducing the level of CO₂ emissions in the economy; and
5. research, innovation and competitiveness.

These dimensions will be set out in concrete terms in 26 policy initiatives that the Commission is supposed to put into effect in 2015 and 2016.

The Commission's proposal and the Council's decision are formulated in a way that would allow for both a fundamental remake of European energy and climate policy and the uninterrupted continuity of the existing policy. It remains to be seen to what extent the Commission and the member states (and formally the European Parliament as well) can agree to adopt far-reaching reforms of the European energy and climate policy that would deserve the name Energy Union.

In the optimistic scenario the Commission would succeed in formulating a proposal that incorporated the five dimensions broadly enough to convince all member states that by abandoning secondary claims they could achieve success in areas that they regard as essential. For instance, it is conceivable that Germany would agree to the creation of a common European mechanism for promoting renewable energies or to more stringent rules for supplying gas in the event of a crisis if in exchange a system of governance for the realisation of long-term targets for renewables and climate objectives were formalised.

In an intermediate scenario the respective actors would seek independent compromises in each sub-area. This implies that a qualified majority would be needed for each measure. Accordingly, compromises would be less ambitious and include numerous opt-outs for individual countries, and the overall package of measures could be expected to lack consistency. Another solution much discussed by the European Commission is a greater regionalisation of energy policy (i.e. for groups of countries). The obvious advantage is that countries with similar conditions are better placed to pursue a common energy and climate policy. That said, the problem with regional approaches is that they leave many important problems unresolved. A Central European interconnected gas network will not solve the problem of dependency on Russia. A northwest European power grid would still face the problem of windstill. And an Iberian renewables network would not guarantee the necessary investment security. Moreover, there is the danger that regional approaches will lead to different regions formalising a commitment to divergent paths, which runs counter to the long-term Europeanisation of energy policy.

In a pessimistic scenario the European Commission would not have (or want to use) the political capital needed to negotiate a complicated compromise between the member states. The Energy Union would then be nothing more than an empty shell – true to the motto that if you talk long enough about something, there will be nothing left to do.

RECOMMENDATIONS FOR GERMAN POLICY ACTION

The described challenges are crucial for Germany's energy and climate policy as well. Not even Germany can afford a

national solution. Germany's position will be decisive for the success or failure of the Energy Union. Hence, rather than trying to block this debate, it should be German policy steering it in the direction of an ambitious European compromise. In view of the danger that the current momentum in the debate on the Energy Union will be dissipated over details, time is of the essence.

For this reason German politicians should quickly determine which energy policy positions are non-negotiable for them (e.g. climate change, phasing out of nuclear energy), which offer them some room to manoeuvre (e.g. solidarity in the supply of gas) and where an ambitious push by Germany may open up new options (e.g. electricity market design).

Notes

1 – http://ec.europa.eu/priorities/energy-union/docs/energyunion_en.pdf (18/03/2015)

2 – <http://www.consilium.europa.eu/en/press/press-releases/2015/03/conclusions-energy-european-council-march-2015> (19/03/2015)

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Imprint

© Friedrich-Ebert-Stiftung, 2015
Division for Social and Economic Policies of the Friedrich-Ebert-Stiftung,
Godesberger Allee 149, 53175 Bonn
Responsible in the FES for this publication: Dr. Philipp Fink & Stephan Thalhofer
Cover picture: © Westend61/Fotolia.com

ISBN: 978-3-95861-214-3

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