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Energy Union in Europe: long-term action

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Energy Union in Europe: long-term action

Abstract:

In February 25th, the European Commission launched the "*Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy*." This strategy results from the interest of the current EU Commission president, Jean-Claude Junker, to give the European energy integration a final push in order to supply secure, sustainable, competitive and affordable energy to citizens and businesses. The documents is accompanied by a roadmap that includes the actions that should be implemented together with the responsibilities the actors that carry it out should have, as well as a timetable covering through 2020. The European Commission has a clear vision of the path that should be followed, though it will not be an easy task. The success of the Energy Union within the EU will mainly depend on the political will of the Member States.

Key words:

Energy Union Package, energy security, PCI, climate change.

An Energy Union with decades of delay

In February 25th, the European Commission launched the "*Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy*." [1] This strategy results from the interest of the current EU Commission president, Jean-Claude Junker, to give the European energy integration a final push in order to supply secure, sustainable, competitive and affordable energy to citizens and businesses. The day of the strategy's presentation, Junker declared that "*energy has been exempt from the fundamental freedoms of our Union. Current events show the stakes – as many Europeans fear they may not have the energy needed to heat their homes. This is about Europe acting together, for the long-term*." This initiative has such importance that Maroš Šefčovič, the Vice-President responsible for the Energy Union, stated that it is*" the most ambitious European energy project since the Coal and Steel Community."* [2]

The objective of this strategy is to finally implement a secure, connected and integrated energy market within the Union. Nevertheless, the goal is not new, as issues regarding energy security were already discussed during the 1970's oil crisis. However, it is at the beginning of the 21st century when some steps towards this matter have been taken.

The Lisbon Treaty, signed in 2007, provides the legal basis for the definition of the EU actions regarding energy, as set out in Article 194. This article established that the Union has the power to adopt measures designed to:

a) ensure the functioning of the energy market;
b) ensure security of energy supply in the Union;
c) promote energy efficiency and energy saving and the development of new and renewable forms of energy; and
d) promote the interconnection of energy networks.

Since then, measures like the "*Energy and Climate Package 2020*"[3] have been developed in order to achieve the climate objectives set in 2007. These initiatives are designed to make progress towards the integration of fragmented natural gas and electricity markets into one, though we must take into account that the achieved agreements are mostly related to sustainability. In 2007, European leaders also launched the *"Energy Policy for Europe"* based on three intertwined pillars: competitiveness, supply security and energy sustainability.

[1] http://ec.europa.eu/priorities/energy-union/docs/energyunion_en.pdf
[2] http://ec.europa.eu/priorities/energy-union/docs/energyunion_en.pdf
[3] The Package, known as 20/20/20, included 20% reduction of greenhouse gases with regard to 1990, 20% renewable consumption and 20% energy efficiency.

After the 2009 Ukraine crisis, the EU began to make some reforms, as it built new gas pipelines and reversed the flow of certain connections. What is more, LNG imports rose, as well as its storage capacity. These measures have improved the EU's resilience in regards to short interruptions in supply. To date, however, the Union has not addressed the problem of Europe's energy security in the long-term and at a broader scale.

Furthermore, the Union's climate change policies have changed due to the economic crisis. Nowadays, their approach has shifted towards competitiveness and energy security, without forgetting about environmental and sustainability issues. This new point of view is reflected in the "*2030 Framework"* passed in October 2014. The Framework establishes a 40% reduction of greenhouse gases with regard to 1990 and 27% share[4] in renewables. However, it does not address national or efficiency objectives. The most relevant part of the Framework is that is specifies that the fight against climate change must not compromise businesses competitiveness and that a low carbon economy has to be compatible with economic growth and employment creation.

Moreover, the EU has been progressively liberalizing the gas and electricity markets. In this regard, the launch of the "*Third Package*" in 2009 has boosted the EU's energy regularization, as it has provided the bases for an efficient and competitive European energy market that can protect consumers and the independence of energy regulators, as well as guarantee supply. This measure has also allowed a greater harmonization of the border trade regulation[5].

Keys elements for an Energy Union

During the Union for Energy presentation, the European Commission described the current energy scenario while pointing out Europe's great dependency on foreign supply and the lack of interconnections among member countries, some of them considered energy islands, such as Spain. President Juncker keeps underlining the urge to act now and to decide whether or not to boost a Europe united over an issue of such key importance as energy.

The European Union is suffering the consequences of some of the tendencies taking place in the global energy market. Conflicts in Ukraine, Near East, Middle East and North of Africa can pose a threat, as they can generate brief disruptions in gas and oil supply.

The growth of new emerging markets, such as the China or India ones, is substantially increasing the demand for energy resources. Suppliers find these new markets very attractive, as they are willing to pay a higher price than the regular

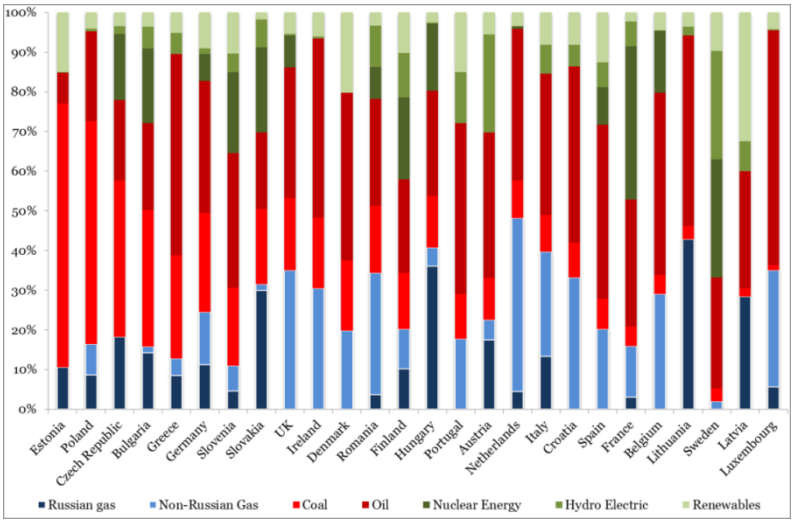
[4] Nota del traductor al corrector: el original no incluye la palabra «incremento» como tal, pero creo que incluir «increase» aclara la frase y la hace más comprensible.
[5] http://www.cne.es/cne/contenido.jsp?id_nodo=468&&&keyword=&auditoria=F Date of access: May 14th, 2015.

customers. An example of this situation is the effort Russia is making to export its gas to China. These actions are bad news for the European Union, as it can turn the Union into an unattractive market to sell or invest, which would lead to catastrophic circumstances that can put the Member States' economies and even the very existence of the EU at risk.

On the other hand, the Fukushima accident has paralyzed – though it has only been for a short period of time- the development of new nuclear power plants in Europe. Countries like Germany have discarded this type of energy and are boosting renewable ones. While this transition is taking its first steps, coal has been the chosen energy source to maintain the industrial structure's competitiveness, which make us question to what extend are they achieving climate objectives. However, it is possible that Germany will not be able to fulfill its commitment to completely abandoning nuclear power at the medium- or long-run.

On the contrary, countries like France, China or the US are committed to nuclear power, as it is a sustainable and competitive energy and, therefore, makes it easier to achieve climate objectives. Due to the fact that the Member States of the EU have different energy mixes, climate policies do not establish binding objectives at a national level, but common ones within the Union. That is why it is necessary to create a flexible market that includes the different range of renewable energies and that does not hinder Member States from freely having an energy mix, as outlined in Article 194 of the Lisbon Treaty:

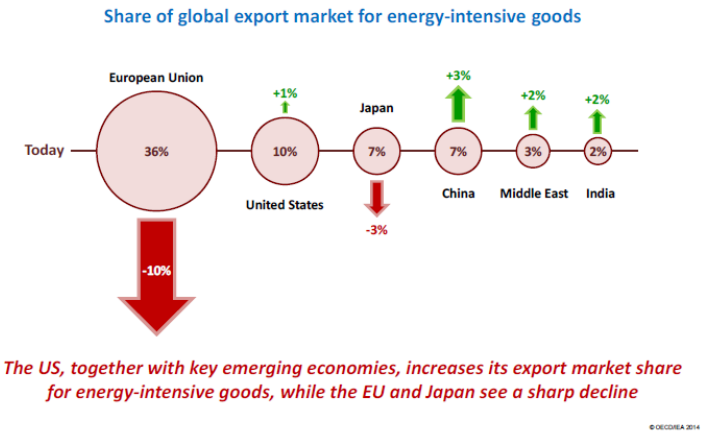
"Such measures shall not affect a Member State's right to determine the conditions for exploiting its energy resources, its choice between different energy sources and the general structure of its energy supply, without prejudice to Article 192(2)(c)."



Fuente:
http://www.ecfr.eu/article/commentary_europes_vulnerability_on_russian_gas

Moreover, we should also take into account the fracking techniques that are being used for the extraction of unconventional fossil fuels. As there is no agreement whether if this type of extraction can guarantee energy security for the Union or not, Member States are free to adopt it "*provided that issues of public acceptance and environmental impact are adequately addressed*[6]." However, countries like the US are using this exploitation technique as it ensures them energy self-sufficiency –only if the price per barrel of oil remains above $70 – and, maybe, even export capacity. Moreover, we will not know if the EU is a favored customer of the US until it agrees to include energy issues in the Transatlantic Trade and Investment Partnership (TTIP), an agreement that both parties are currently negotiating. Nevertheless, Asian markets provide a range of advantages that may be more attractive for the US interests, so they could be entering into competition with the EU.

The loss of competiveness of the European industry is an important and alarming aspect of the energy sector. This industry is losing market share regarding high-efficiency energy goods, as it is happening with the chemical, steel, paper or cement ones. The export of these type of products has fallen 10%, while the US and some emerging powers have experienced a positive growth[7]. A key element of business competitiveness is energy, not only because of its price, but also due to other factors like intensity[8]. Clean energy technological innovation and efficiency will also be essential in order to maintain competition among businesses while they achieve the objectives set to fight climate change. The transmission of lower prices from the wholesale m ant factor, as consumers a



Fuente:https://www.iea.org/newsroomandevents/speeches/Amsterdam_Energy_Security.pdf

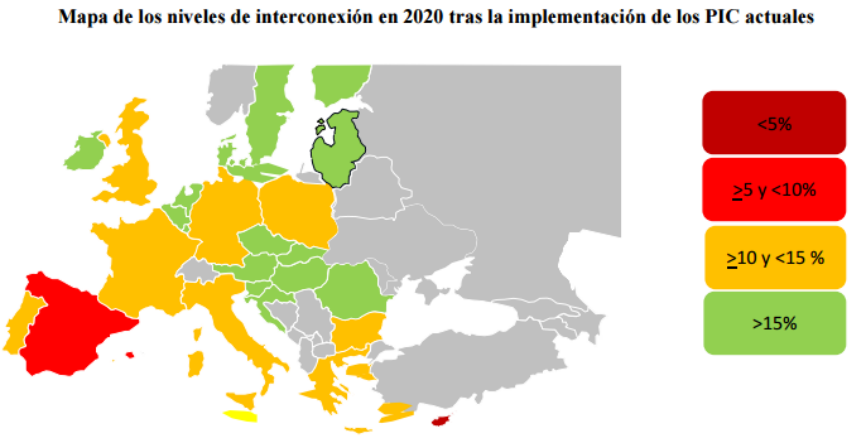
[6] As stated in the Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy.
[7] IEA WorldEnergy Outlook 2013
[8] http://ec.europa.eu/economy_finance/publications/european_economy/2014/pdf/ee1_1_en.pdf

To establish an internal market, competitive prices and an energy economy of scale are a must, as well as the improvement of interconnections. In order to reach those objectives, the European Union has created the TEN-T regulation and the *"Connecting Europe"* mechanism, which aim to introduce "projects of common interest" (PCI), improve the regulation framework and accelerate granting procedures[9]. The first list of PCI was published in 2013 and it will be updated by the end of this year. Most of the PCI include electricity and gas connections. However, many others also incorporate electricity and gas storage and liquefied gas regasification terminals.

Of the 248 projects included in the first list, 37 have already obtained funding amounting to EUR 647 million[10],[11]. Among them, we can find the study regarding the interconnection between Aquitaine (France) and Spain through the Basque Country, which could double the connection capacity. *France Reseau de Transport d'Electricite* and *RED ELECTRICA DE ESPAÑA S.A.U* are the ones carrying out this project, which has a maximum budget of EUR 3.25 billion. Besides it, the list also includes other five projects involving Spain. Among them, we can highlight two electrical connections with France, another two with Portugal and the MIDCAT gas pipeline[12].

As the PCI list will be updated by the end of this year, it is necessary to propose more interconnection projects between Spain and Europe. This is due to the fact that after the implementation of the current PCI, the level of connection that could be reached in 2020 would be 10% lower than the objective set for Spain.

[9] Communication from the Commission to the Council and the European Parliament. Achieving the 10% electricity interconnection target. Date of access: February 25th, 2015.
[10] Nota del traductor al corrector: en el original no se especifica la moneda, pero intuyo que son «million euros»
[11] https://ec.europa.eu/energy/sites/ener/files/documents/20141121_cef_energy_lists.pdf
[12] https://ec.europa.eu/energy/sites/ener/files/documents/2013_pci_projects_country_0.pdf



Source: http://eur-lex.europa.eu/

Energy Union: coordination without borders

The most highlighted features of the "*Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy"* are its generic nature and its good intentions. With this plan, the Commission wants to draw attention to the Member States' level of dependency in order to guarantee an energy security based on solidarity and trust. The strategy also highlights that it is very important that the for the EU to speak with one voice regarding international issues, a better use of the existing resources, free movement of energy through borders, a more efficient regulation of energy markets and, most importantly, an Energy Union that focuses on the citizens. As the strategy states: "*We have to move away from a fragmented system characterized by uncoordinated national policies, market barriers and energy-isolated areas."*

Moreover, the Framework for the Energy Union also evaluates the energy situation in Europe, as it outlines that the retail market is not functioning as well as it should. According to the text, this is due to the fact that a price depression in the wholesale markets has not influenced consumers' receipts as countries have compensated that price drop with tax increases, especially transmission ones. On the one hand, as other countries are increasing their investment in energy infrastructures, the EU ones are becoming obsolete. This could be a bad scenario for the Union, as it could lose its current leadership regarding technological and renewable energies innovation. On the other hand, the lack of stability of the regulatory framework endangers the EU, as it can be left without investments in new technologies.

In order to solve these problems and foster energy security, sustainability and competitiveness, the Energy Union proposes five work areas and 15 points of action, as shown in Table 1.

The strategy is accompanied by a plan that includes the initiatives that should be undertaken and the different responsibilities. Moreover, it also comes with set dates

that do not exceed a two year period, except to achieve the 10% electric interconnection objective, which has a five year period (from 2015 to 2020.)

Despite these proposals, the strategy itself establishes that its success depends on the political commitment of the EU institutions, Member States, the European Investment Bank and other interested parties, even at a local or regional level.

Table 1.The 5 dimensions of the Energy Union and its development

• Energy security, solidarity and trust	1. Diversification of supply, suppliers, routes and energy sources. 2. Collaboration regarding supply security. 3. The EU reinforcement inside global energy markets. 4. Higher transparency concerning gas supply.
• An integrated European energy market	1. Interior market hardware: join markets through interconnections. 2. Usage and update of “software”, that is, internal energy market’s current legislation. 3. Deeper regional cooperation inside the EU. 4. A new framework for consumers for them to freely buy energy and use intelligent technology that can bring more flexibility to the market and reduce bills. 5. Protection of vulnerable consumers.
• Energy efficiency as a contributor for demand reduction	1. Energy efficiency increase within the building industry. 2. Energy-efficient and low carbon transportation.

• Decarbonisation of the economy	1. An ambitious climate policy for the EU. 2. Become a renewable energy and storage solution leader.
• Investigation, innovation and competitivity	1. Growth, employment and competition generation. 2. Intelligent homes and networks, clean transportation and nuclear power production that turns to be the safest in the world. 3. Professional retraining.

In May 18th, Maroš Šefčovič, the Vice-President of the European Commission, presented a media campaign called *"Energy Union Tour"* that aims to boost the Energy Union. With this campaign, Šefčovič wants to meet Member States' government institutions, businessmen and social groups in order to show businesses, citizens and national energy security the advantages the Energy Union can offer.

Šefčovič stated that the commitment with the Energy Union is solid:

"We now have a common understanding of the direction in which to go. Our common objectives are clear: we have to get out of our energy dependency; establish a fully integrated and competitive European energy market; give the principle of 'energy efficiency first' a central role in our policies; decarbonize our economy and society, and play an active role to turn the upcoming Climate Conference in Paris into a success; and better focus our research efforts to maintain technological leadership and become the world's number one in renewables. I will use the Tour to show to Member States that the Energy Union will bring real and tangible benefits for all of us if we follow a European, cross-border approach. But I will also explain that we are not there yet and that there are still important bottlenecks that have to be overcome, several of which are country-specific"

Conclusions

As in agricultural and transport policy, it is necessary that the EU must continue to pursue the energy sector integration process. Nevertheless, this will not be an easy task because energy –as well as happens with defense – is a strategic sector for the Member States, who are against giving up part of their sovereignty. In this type of situations, national interests exceed the interests of the Union as a whole, which complicates the establishment of an integrated, competitive and sustainable energy market.

The Union shares part of the energy competences with the Member States. This circumstance must boost international cooperation with supplier, transit and consumer countries in order to increase the Union's flexibility when dealing with changes in global markets. In essence, the EU has to reinforce its negotiating power and its foreign policy. At the same time, however, Member States should also check with the European institutions their intentions of reaching energy agreements with countries outside the Union.

The Energy Union means a step forward towards the establishment of a more united and integrated Europe based on solidarity and trust principles that can contribute to maintain the Union's international power. For the time being, the EU actions have been successful. Nevertheless, the international scenario is changing at a faster pace than Europe's capacity to act. This fact, together with the Member States' lack of interest in the establishment of an energy integration process, are the reasons why the Union has to accelerate such integration. If the EU cannot carry this out, the other option is to leave the Union with a mix of energy policies based on national interests, which would endanger its competiveness and its role as an economic power.

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