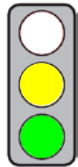


KEY ISSUES

Objective of the Communication: The Commission clarifies its Strategic Framework for an Energy Union and the associated climate and energy policy measures which it is planning for the coming years.

Affected parties: Whole economy, primarily the energy sector and energy-intensive companies.



Pro: (1) The expansion of cross-border gas infrastructure increases the security of the gas supply in those EU Member States that are currently highly dependent on one gas supplier.

(2) Cross-border cooperation may result in renewable energy being supported in places where it can be most cost-effectively produced.

Contra: CO₂ limits for motor vehicles cannot guarantee that the CO₂ reduction targets for road transport will be achieved with accuracy or at minimal cost. Instead, the existing Emission Trading System EU ETS should be extended to include the road transport sector.

CONTENT

Title

Communication COM(2015) 80 of 25 February 2015: **A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy**

Brief Summary

► Context and objectives

- The EU is highly dependent on energy imports. These (p. 2)
 - cover 53% of the EU's energy consumption and
 - cost € 400 billion per year.
- Electricity prices in the EU (p. 3)
 - are 30% higher for companies than they are in the USA which has a detrimental effect on the competitiveness of European industry;
 - rose for end-customers by 4.4% in 2013 compared to 2012, whilst wholesale prices for electricity fell in the same period.
- Although there are already numerous EU-wide energy rules, there are still 28 different national regulatory frameworks.
- The Commission wants to spur on the Europeanisation of energy and climate policy with its Strategic Framework for an "Energy Union" which will be reinforced in the coming years by further legislative proposals and measures.
- The Energy Union will help to achieve the following five objectives ("Dimensions"):
 - Dimension 1: Increasing energy security,
 - Dimension 2: Strengthening the internal energy market,
 - Dimension 3: Increasing energy efficiency,
 - Dimension 4: Reducing CO₂ emissions ("decarbonising the economy"),
 - Dimension 5: Promoting research and innovation in the energy sector.

► Dimension 1: Increasing energy security

- In order to be less dependent on natural gas imports from Russia, gas supply sources and routes will be diversified. For this purpose, the Commission wants to (p. 4)
 - expedite the construction of a pipeline through Turkey and Georgia allowing gas to be supplied from Azerbaijan and other central Asian countries to the EU ("Southern Gas Corridor"),
 - examine the possibility of increasing the import of liquefied natural gas (LNG), as part of a "comprehensive LNG strategy", and transporting it by sea to the EU.

- The Commission criticises the fact that it often only receives retrospective notification of intergovernmental agreements between Member States and gas exporters from non-EU countries. The procurement of gas from third countries must be compatible with EU law and will therefore be coordinated to a greater extent at EU level. For this purpose, the Commission wants
 - to be involved at an early stage in the negotiation of inter-governmental agreements with third countries on gas imports, and to work towards standard contract clauses which comply with EU law;
 - to examine options for voluntary joint gas purchasing in order to improve its negotiating position. The requirements for this "demand aggregation" will be that (p. 6; see [ceplInput Joint Gas Purchasing](#))
 - the Member States involved are particularly dependent on one gas exporter,
 - aggregation only takes place in times of crisis and
 - it complies with EU competition law and WTO law.
- The Commission will submit a legislative proposal on the security of electricity supplies in 2016. Member States will [p. 6; see also Working Document SWD(2013) 438, see [cepPolicyBrief](#)]
 - assess security of the electricity supply using an "EU-wide, fact-based security of supply assessment" and
 - only develop support systems for electricity producers to avoid disruptions in supply ("capacity mechanisms") where this is necessary to secure the electricity supply for a region covering several Member States.
- ▶ **Dimension 2: Strengthening the internal energy market**
 - The Commission will continue to investigate whether Member States are fully transposing and implementing existing EU energy law.
 - Member States will refrain from implementing state support systems which run counter to the internal market. This applies in particular to (p. 10)
 - capacity mechanisms [see also Working Document SWD(2013) 438, see [cepPolicyBrief](#)] and
 - support for renewables [see also Working Document SWD(2013) 439, see [cepPolicyBrief](#)].
 - The EU is aiming to increase the proportion of renewables used in EU energy consumption to at least 27% by 2030. For this purpose, the Commission wants to
 - facilitate cross-border cooperation and the convergence of national support schemes (p. 15) and
 - submit a legislative proposal, in 2016 or 2017, to ensure that the EU target is met cost effectively (p. 21).
 - In 2016, the Commission will submit a "legislative proposal to redesign the electricity market and linking wholesale and retail". This will enable the retail electricity prices to develop in the same way as the wholesale electricity prices so that consumers can react to price signals on the wholesale electricity market (p. 10).
- ▶ **Dimension 3: Increasing energy efficiency**
 - The Commission wants to increase energy efficiency in the transport sector such that for the period after 2020 (see also [ceplInput Extend Emissions Trading](#))
 - the CO₂ limits on cars and small commercial vehicles will be tightened and
 - "measures" will be taken to reduce the CO₂ emissions from heavy duty vehicles and buses (p. 13).
 - The Commission wants to increase incentives for investment in the energy efficiency of buildings and, for this purpose, access to existing support schemes for investors will be made easier.
- ▶ **Dimension 4: Decarbonising the economy**
 - According to the Commission, the main instrument of future EU climate policy is a reformed Emission Trading Scheme (EU-ETS), which (p. 10, 14)
 - encourages EU-wide technology-neutral and cost-effective investment in renewables and energy efficiency, and
 - avoids putting EU companies at a disadvantage in competition with non-EU companies.
 - The Commission wants to reduce CO₂ emissions in the road transport sector by (p. 13)
 - promoting alternative fuels and propulsion technologies [see also Communication COM(2013) 18, see [cepPolicyBrief](#)] and
 - changing over to forms of transport which produce fewer emissions than motor vehicles do, such as rail transport ("Shift2Rail").

► Dimension 5: Supporting research and innovation

- The Commission wants to improve the coordination of existing support schemes for the development and introduction of low-emission technologies EU wide and, for this purpose, establish a research and innovation agenda. According to the Commission, the principle subject areas of research are (p. 16)
 - latest renewable energy technologies,
 - technologies facilitating the expansion and use of "smart grids" [see also Working Document SWD(2013) 442, see [cepPolicyBrief](#)],
 - energy systems which help to make the building sector energy neutral, and
 - sustainable transport systems.
- According to the Commission, reform of the EU ETS is necessary so that the capture and storage of CO₂ ["CCS"; p. 19; see also Communication COM(2013) 180, see [cepPolicyBrief](#)] can contribute to achieving long-term EU climate targets.

Policy Context

The EU's Climate and Energy Policy aims to facilitate a climate-friendly and secure energy supply at affordable prices. By 2020, three targets of climate and energy policy will be realised: reducing greenhouse gas emissions by 20%, increasing the proportion of renewables to 20% and pushing up energy efficiency by 20% ("20-20-20 Targets"; Conclusions of the European Council of 8/9 March 2007). In October 2014, the European Council passed ambitious climate and energy targets for 2030 (Conclusions of the European Council of 23/24 October 2014, see [cepInput Climate and Energy Targets 2030](#)).

In June 2014, in the wake of the latest Russian-Ukrainian conflict, the Commission, at the request of the European Council, published a Communication on a strategy for securing the European energy supply [COM(2014) 330, see [cepPolicyBrief](#)].

The Communication now submitted relates to the request by the European Council for the Commission to submit a strategy, by March 2015, for a coordinated energy policy for the next five years within the framework of an Energy Union (Conclusions of 18 December 2014, para. 1 (f)).

Options for Influencing the Political Process

Directorates General: DG Energy (leading)

ASSESSMENT

Economic Impact Assessment

Ordoliberal Assessment

Expanding cross-border gas infrastructure – especially the construction of new pipelines and the completion of LNG terminals – may increase the diversification of gas supplies into and within the EU. It will therefore **increase the security of the gas supply in those EU Member States which**, due to the unidirectional nature of the gas pipelines, **are currently highly dependent on one gas supplier, such as Gazprom**.

As the Commission itself stipulates, it should be involved, at an early stage, in bilateral gas negotiations between individual Member States and third countries in order to ensure that bilateral gas supply agreements comply with EU law.

Voluntary demand aggregation of the natural gas importers in Member States which are currently still highly dependent on individual gas exporters, on the one hand gives these Member States the chance to moderate the dominant market position of the major gas exporting companies such as Gazprom. On the other hand, it may reduce the incentive in these Member States for investment in the diversification of the natural gas supply because the positive impact of such investment on the negotiating position vis-à-vis gas exporters such as Gazprom, becomes insignificant. This may have a negative impact on the security of the EU gas supply as a whole (see [cepInput Joint Gas Purchasing](#)).

The strict enforcement of existing EU law by the Commission is crucial for creating a level playing field in the internal energy market.

Impact on Efficiency and Individual Freedom of Choice

Although capacity mechanisms may increase security of supply, depending on their design, they can also be misused to support uneconomic domestic power plants and thereby hinder completion of the internal market. Binding and EU-wide rules on the use of capacity mechanisms – such as those announced by the Commission – may reduce the risk of excessive distortions of competition in the internal market.

Cross-border cooperation by Member States and requirements for support for renewable energies to be more cost effective **may have the effect that renewables are supported in those locations where they can be produced most cost-effectively** rather than where subsidy rates are at their highest.

The Commission rightly points out that **the EU ETS** represents the main instrument of future EU climate policy because it **guarantees that CO₂ reduction is not only accurately targeted but also that it happens in those places where it can be most cost-effectively achieved**. A reform of the EU ETS, with the primary aim of encouraging investment in renewables or energy efficiency, is not however appropriate because the choice of

sectors in which emissions are to be reduced, and the investments which are therefore worthwhile, should still be determined exclusively by the CO₂ market based on the price of allowances.

The introduction and tightening of CO₂ limits on motor vehicles cannot guarantee that the CO₂ reduction targets in the road transport sector will be achieved with accuracy or at minimal cost nor can direct support for alternative fuels and propulsion technologies. **Instead, the existing EU-ETS should be extended to include the road transport sector** (see [ceplnput Extend Emissions Trading](#)).

Impact on Growth and Employment

Policy measures resulting in a secure and low-priced energy supply may have a positive impact on growth and employment.

Impact on Europe as a Business Location

The Commission rightly points out that European industrial companies already pay significantly higher energy prices than their non-European competitors and this has a negative impact on Europe as a business location. The future design of the EU ETS and other climate and energy policy measures must not therefore be permitted to further enlarge the existing energy price differences.

Legal Assessment

Legislative Competency

Unproblematic. The EU is entitled to issue energy policy measures in order to secure the functioning of the energy market, to guarantee security of energy supply, to promote the interconnection of energy networks as well as to support energy efficiency, energy savings and the development of new and renewable energy sources (Art. 194 TFEU). It is also empowered to issue environmental measures for the protection of the climate (Art. 192 TFEU). A conclusive assessment is not possible until concrete proposals have been submitted by the Commission.

Subsidiarity

An assessment is not possible until concrete proposals have been submitted by the Commission.

Conclusion

The expansion of cross-border gas infrastructure increases the security of the gas supply in those Member States that are currently highly dependent on one gas supplier such as Gazprom. Cross-border cooperation may result in renewable energy being supported in places where it can be most cost-effectively produced. The EU ETS guarantees that CO₂ reduction is not only accurately targeted but also that it happens in those places where it can be most cost-effectively achieved. The introduction or tightening of CO₂ limits for motor vehicles cannot guarantee that the CO₂ reduction targets for road transport will be achieved with accuracy or at minimal cost. Instead, the existing EU ETS should be extended to include the road transport sector.