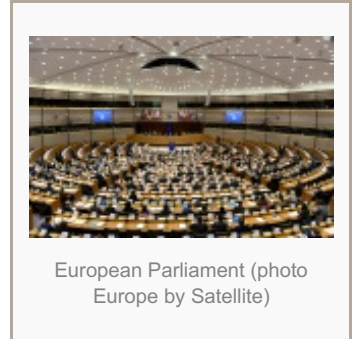


The Energy Union: it's now or never for a European energy policy

Karel Beckman

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Rarely has an idea conquered the policymaking conversation in the EU as rapidly as that of the Energy Union. In less than a year it has become the big package in which all EU climate and energy policies are to be wrapped up. Where did the idea come from? How will it change EU energy policy? Editor Karel Beckman spoke to experts from Poland, Luxembourg, France, Italy and the UK to find out. They agree it's now or never for a true European energy policy. But are sceptical about the chances. "I fear it's yet another great plan that won't work out. But I hope I'm mistaken".



Credit for the Energy Union must go to then-Polish prime minister Donald Tusk who introduced the idea in a so-called "non-paper", entitled "[Roadmap towards an Energy Union for Europe](#)", which he submitted to the European Commission on 10 April 2014.

On 21 April, in a letter to the Financial Times, Tusk announced the idea to the public. He made very clear what he meant by it: "*Europe should confront Russia's monopolistic position with a single European body charged with buying its gas*", he pronounced. In addition, wrote Tusk, "*Europe should make full use of the [domestic] fossil fuels available, including coal and shale gas.*"

The context in which Tusk introduced the idea was of course the Russian invasion of the Crimea on 26 February. At a [meeting](#) on 20/21 March, the European Council had requested the European Commission to come up with a plan to reduce Europe's energy dependence. Tusk beat the Commission to it.

"Europe should confront Russia's monopolistic position with a single European body charged with buying its gas"

It took until 28 May for the Commission to produce the requested [report](#). The strategy it [unveiled](#) was clearly influenced by the [Polish plan](#), though with some of the sharp edges removed. The Commission spoke about "improving coordination of national energy policies and speaking with one voice in external energy policy" and "increasing indigenous energy production". It did *not* mention collective purchasing of gas. In addition, the Commission recommended reducing energy demand, increasing energy efficiency and promoting renewable energy – all matters which Tusk in his proposal had pointedly ignored.

Timing

Although Tusk's timing may have been good, his plan was also very clearly in the [self-interest of Poland](#). Poland is heavily dependent on coal and within the EU one of the strongest opponents of ambitious climate and renewables policies. And although Poland uses and imports little gas, it is very concerned with Russian dominance.

Ilona Jedrasik, a Warsaw-based expert working for international environmental organisation ClientEarth, says that Tusk's proposal was undoubtedly meant as an "alternative" to the EU's Climate and Energy Package which was then being discussed (and finally [agreed on by European leaders](#) late October last year). "The powerful Polish coal industry feels threatened by EU climate policies", she says.

Her colleague Marta Toporek notes that the Poles had already introduced the idea of an "Energy Nato" in 2006 and had felt betrayed by the Russian-German Nord Stream project, which in 2011 had started transporting gas from Russia through the Baltic Sea to Germany and beyond, bypassing Poland.

According to Aleksandra Gawlikowska-Fyk, head of the energy division at the Polish Institute of International Affairs (PISM), the idea of the Energy Union was the result of a brainstorming session between Tusk and his then-European Affairs Minister Piotr Serafin after the European Council meeting in March 2014. She says that the Tusk proposal was “the voice of Central and Eastern Europe on security of supply”. It was not meant “to substitute EU policy, but to supplement it with the long-underestimated energy security issue”.

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Nevertheless, many felt that the Polish proposal was limited too much to Eastern European concerns. The UK for one quickly produced its own “non-paper”, which, however, [suffered from a similar national perspective](#). UK Prime Minister David Cameron spoke out against coal and demanded the right to develop nuclear power, shale gas and renewable energy – exactly in line with the UK’s own energy policy. Unsurprisingly, the Netherlands, as a gas exporter (and home to Shell), promptly rejected the suggestion of “collective gas purchasing”.

Decarbonisation

Thus, the whole idea of an Energy Union seemed to die a premature death. But a few months later, there appeared a new European Commission, with – surprise, surprise – a “Vice-President Energy Union” in its ranks as well as a new Commission President, Jean-Claude Juncker, who declared the creation of an Energy Union to be one of his [top priorities](#).

According to Juncker, the Energy Union means “pooling resources, connecting networks and uniting our power when negotiating with non EU countries”, but also “diversifying our energy sources” and “making the EU the world number one in renewable energy and leading the fight against global warming”.

The new Vice-President for Energy Union in the Commission, Maroš Šefčovič, [said in his first appearance](#) before the European Parliament in October last year, that an Energy Union would include the collective purchasing of gas “I believe we must try it”, he said. But he also mentioned a number of other aspects: more assertive energy diplomacy, completion of the internal energy market, “decarbonisation” of the energy mix, reducing energy demand, expansion of gas and electricity interconnections and a common climate policy.

Struggle

So does this mean the Polish proposals fell on fertile soil? Not quite, says Professor Sami Andoura, Senior Research Fellow at the Jacques Delors Institute and holder of the European Energy Policy Chair at the College of Europe in Bruges. In the European process, he says, “the Poles lost control of their idea.”

What happened was that the new European Commission, led by Jean-Claude Juncker, took over the concept of Energy Union, but developed it much broader than Poland had intended. The Polish idea was transformed into a European one.

Transformed into what exactly? What will this European Energy Union, if it ever comes into existence, look like?

That’s not yet clear at this moment, Andoura acknowledges. But, he says, there are very positive signs coming from the European institutions, especially the European Commission. “They want to make sure that the EU will finally have a real European energy policy.”

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The struggle for a “real European energy policy” that Andoura is referring to has been going on for years. One of the major obstacles has been the famous energy paragraph (article 194) in the [European Treaty](#). This says that Union policy on energy “shall aim, in a spirit of solidarity between Member States, to ensure the functioning of the

energy market, to ensure security of energy supply in the Union, to promote energy efficiency and renewable energy, and to promote the interconnection of energy networks”, but at the same time upholds the right of each Member State “to determine the conditions for exploiting its energy resources, its choice between different energy sources and the general structure of its energy supply”.

This last point has made it impossible so far to come to a truly European energy policy. Each Member State still determines its own “energy mix” – with all this entails. Hence, for example, Germany was able after the Fukushima disaster to unilaterally decide to phase out its nuclear power – although this decision has obviously greatly affected the energy supply in neighbouring countries. By the same token the UK has the right to expand its nuclear power capacity – and [has decided to build](#) three huge (3.3-3.4 GW) new nuclear power facilities. A common European energy policy – backed by better European interconnections – may have led to a more rational set of nuclear decisions.

The European Commission did adopt [new guidelines for State Aid](#) in the field of energy in July 2014, but these are no substitute for a joint energy policy.

Forces

Nevertheless, Andoura does believe there is a way forward which does not involve changing the EU Treaty. He published a [report](#) about this, co-authored with ex-EU top official Jean-Arnold Vinois, for the Jacques Delors Institute/Notre Europe, which came out on 27 January. The title: “From the European Energy Community to the Energy Union”.

Nobody in the gas market talks about long-term contracts with Russia at the moment.”

The “European Energy Community”, says Andoura, was the idea that was proposed in 2010 by Jacques Delors, former President of the European Commission, and Jerzy Buzek, former President of the European Parliament (and former Prime Minister of Poland!). “This was a precursor of the Energy Union”, says Andoura. “It did get a lot of support, for example from French president Hollande, but it was not really worked out in practice.”

The same forces that were behind the European Energy Community have now assembled behind the Energy Union. “And this time they want to make sure it will be accompanied by the proper instruments to implement it”, says Andoura. How? “By creating, in legislation and at the operational level, a real European energy governance.”

According to Andoura, a lot of progress has already been made in this direction in recent years. For example, the national (gas and electricity) transmission system operators (TSO’s) and the national regulators cooperate in European organisations such as ENTSO-G, ENTSO-E and ACER. With the help of standardised “network codes” they have connected gas and electricity networks with each other. In addition, by means of “coupled” wholesale markets it is possible to trade in electricity and gas at a regional level in most of the EU.

What should happen next, says Andoura, is that these European organisations get real operational authority. At this moment the national TSO’s direct the gas and power systems. “Where we should be going is that European organisations are able to direct energy flows. First at a regional level, later for the whole EU.” This arrangement “should be laid down in a regulatory framework, in hard rules, not in visions or communications. We need a technical approach involving all stakeholders.” Member States’ fights over their national choices for their own “energy mix” might then become “irrelevant”, says Andoura. “The system will be optimised at the European level.”

What about the collective purchasing of gas? “A nice idea”, says Andoura, “which would have been useful a couple of years ago, but has been overtaken by market developments. The demand for gas in Europe is stagnating, supply has grown. Nobody in the gas market talks about long-term contracts with Russia at the moment.”

Court of Justice

How realistic is the plan advanced by Andoura? According to Guy Lentz, a senior energy advisor of the Luxembourg government, his country, which will assume the EU Presidency on 1 July of this year, will try to evolve

the Energy Union in this direction. “The Energy Union must be the signal that we in Europe are going to have a real European energy policy, and not just a policy dependent on another EU policy”, he says. In other words: a policy based on internal market, competition and environment law.

Lentz believes the “Energy Union must be the start of a whole new European policy where one of the key elements will be a genuine European governance”.

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Whether policymakers outside of Brussels feel the same way is, however, not clear at this point. Carlo Stagnaro, connected to the Italian liberal think tank Istituto Bruno Leoni, notes that “market integration” should be the first step towards an Energy Union, but that has not been taken yet. In [a recent article for Energy Post](#), Stagnaro and Simona Benedittini of Italian consulting firm Lear, argue that the internal energy market is still a failure, and they note that there can be no Energy Union as long as the market integration process has not been completed successfully.

Stagnaro, who speaks in a personal capacity (he is also an advisor to the Italian government), points out that various countries, including [the UK](#), Italy and Germany, are setting up (or considering doing so) national “capacity markets”. Under these arrangements, power producers will be paid for offering backup capacity to the system (which may be needed if solar and wind sources do not generate sufficient power). “This will lead to a Balkanisation of the European energy market”, he says. “If there is something that needs more coordination, then this is it. Still, it’s not happening.”

As further evidence of the failure of the internal market, Stagnaro points to the many national support schemes for renewable energy and nuclear energy – whose legality has been [upheld by the EU Court of Justice](#) – that make a level playing field impossible, despite [attempts by the European Commission](#) to harmonise such schemes. “We are a long way yet from an Energy Union.”

Timmermans

Stephen Tindale, energy specialist at the pro-European British think tank Centre for European Reform (CER), is even more critical. “There is no chance we will have a European energy policy”, he says. “In an ideal world we would have it. But the differences between the Member States are too large, for example in renewables or nuclear power.”

He points out that the European target of 27% renewable energy, which was [embraced in October last year by the EU](#), is only binding at EU level, and will not be divided between member states. “The only real binding target we have for 2030 is 40% less CO2 emissions compared to 1990. That is achievable if you reform the EU Emission Trading Scheme (ETS). Then you have a European climate policy, but still not a European energy policy.”

“We are a long way yet from an Energy Union”

According to Tindale, there is one man who will be decisive in how the Energy Union will be developed in the coming months. That’s not Šefčovič, but Frans Timmermans, the First Vice-President of the new Commission, in charge of “better regulation”. “His attitude will decide whether the Energy Union will have any substance to it or not.”

What Timmermans could do, says Tindale, is three things. One: establish emission performance standards for new and perhaps even existing power plants, as Obama is doing in the US. “So new coal power plants cannot be built.” Two: set a price floor for the EU ETS. Three: introduce stricter European norms for air quality, which would have a large impact on the transport sector.”

Even so, this is a notably different vision of Energy Union than the one advanced by Andoura.

Governance

Aleksandra Gawlikowska-Fyk of Polish institute PISM is also far from convinced that the Energy Union will succeed where earlier plans have failed. “The Energy Union will probably be yet another grand, holistic strategy, perhaps more security-oriented than before.”

On 25 February, the Commission will finally present its long-awaited “Communication” which will reveal how it wants to develop the Energy Union. At a grand Energy Union event held in Riga on 6 February, Energy and Climate Commissioner Miguel Arias Cañete already [revealed a number of policy initiatives](#) that will be included in the Energy Union package. But he said nothing about the real issue: the question of governance.

“The Commission seems to be trying to please everyone”, says Gawlikowska-Fyk. “That’s why they throw in things like renewables, energy efficiency, diversification and innovation. But what concrete instruments, measures will follow? What new legislative initiatives? I’m afraid it won’t be that much. But I hope I am mistaken.”