

Extract from:
Sami Andoura,
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CONCLUSION

TOWARDS A EUROPEAN ENERGY COMMUNITY BASED ON COMPETITION, COOPERATION AND SOLIDARITY

In a European energy context long marked by national independence and sovereignty, solidarity has become progressively a tangible reality of the European energy policy that is currently being developed. Raised at the level of a fundamental principle in European treaties, the principle of energy solidarity has become increasingly important in the drafting of the European energy policy since 2005.

Gradual but real increase in energy solidarity in Europe

It took each time the number of threats, attacks and failures, including gas crises between Russia and Ukraine, for the EU and its member states advancing on the path of energy solidarity and giving it a specific content.

The EU thus secured tangible and pragmatic progress on the issue of energy solidarity by launching a **series of common initiatives** in several key areas such as:

- **Internal security of supply in the field of gas:** for instance, the EU has introduced a European mechanism to organise consistently **better forecasting and coordination of risks and crises of supply across the EU in the gas sector**, and ensure effective solidarity and mutual assistance. It is so far one of the main achievements of energy solidarity in Europe, of which the best example is the principle of reverse flows from west to east on the existing pipelines, including up to Ukraine;
- **Integration of national energy networks** in a European-wide energy market: the EU has also been able to **set energy infrastructures projects of European interest** and their funding with the adoption of the new Regulation on energy infrastructures and the Connecting Europe

facility for the period 2014-2020, after the experience of the European recovery plan for energy adopted in 2010 with up to 4 billion euros of investments;

- **Diversification of energy sources and resources:** another important EU initiative has been to support the development of the **Southern Gas Corridor** as a genuine project of European interest for the diversification of its supply, taking a high profile stance on it and putting its full weight behind;
- The recognition of the European dimension of gas and electricity infrastructures through **negotiating mandates from member states to the European Commission** for the implementation of the Trans-Caspian gas pipeline from Turkmenistan and Azerbaijan and the integration of the Baltic states power grids in European network negotiated with Russia and Belarus. These are the first examples of a specific energy negotiation on behalf of the EU with third countries.

European institutions are also often mentioning in general energy solidarity in the numerous strategies and communications they adopt.

Energy solidarity is also essentially based on key market mechanisms. It is the market, flanked by some European rules, which more often guarantee a secure supply to prevent and manage potential temporary crises, creating a *de facto* solidarity. And private industry plays a major role in implementing energy solidarity.

Missing elements of EU energy solidarity within the EU

While these various progresses are beneficial and welcome, one must recognise that it mainly consists so far in individual initiatives, which cannot yet be regarded as an overall strategy. Energy solidarity as such has not been the subject of any common definition at EU level. Energy solidarity, mostly identified with the issue of energy infrastructure, is still often discussed incidentally to the general rules and developed at the technical level.

And there are still some **significant gaps** in the EU's energy policy in terms of solidarity:

- **Electricity supply security remains the weakest element** of the European energy system. While operators themselves are now aware of the challenges, especially following the historic blackout of November 2006 and the critical situation in February 2012, outrageously national approach still prevents today the establishment of common rules for a truly collective approach that will build on the strengths of the European internal market. Mutual trust needed for a common approach is not yet sufficient and attitudes have yet to change in this regard. A **new Regulation for security of electricity supply** should be drafted and based on the general principles and major components of the existing concomitant gas Regulation, while taking into account the specificities of the electricity sector.
- **Energy solidarity is not yet sufficiently integrated in bi- or multi-lateral energy instruments and agreements with suppliers and/or transit countries.** Speaking with a single voice and pursuing EU interests with regard to external partners, producer and transit countries and other trade entities should mean, when necessary, and in the name of the EU common interest and solidarity, that the EU negotiates directly with suppliers and transit countries the **necessary framework agreements** setting up the conditions of energy supply to European markets, while leaving companies care to negotiate and conclude the final contracts over volumes and prices with suppliers. Similarly, the cooperation forged by the member states individually with third countries appears as sub-optimal in the current context. A specific attention from the EU should be devoted to the European neighbourhood area, both South and East.
- **The required economic and financial solidarity for the impetus for major infrastructure projects of European interest remains limited.** For projects located outside the EU or in EU seas (offshore wind), which are of considerable importance for several member states at the same time, the EU still faces national reluctance which jeopardise those projects because they require a multilateral approach that strikes traditional national approaches. In this context, the major issues of funding and the allocation of costs and benefits between states involved often remain without an appropriate response. The EU must continue to develop the innovative and necessary economic and financial instruments. The newly agreed European interconnection mechanism should help. The use of Structural funds in this area should also be taken into account.

- **Energy poverty is a growing phenomenon even within the EU.**

Unfortunately in most cases, both national and European, even defining this problem is difficult, and the means implemented are not always commensurate with the issues at hand. With regard to interpersonal solidarity in the EU, helping the dozens of millions people affected by this phenomenon to obtain access to secure energy is a major objective for European citizens and should be a priority for energy policy makers. Beyond the sometimes narrow principle of subsidiarity generally invoked in this area and the simple dissemination of good practice which gives a good conscience, the EU should, with a genuine concern over citizens, come up with an ambitious and operational definition of what energy poverty is and what efforts, including strong proposals, to combat this problem should cover.

Moreover, there are still **political, economic and social factors which are hindering a truly shared and common European approach** to the multifaceted issue of energy solidarity. Foremost are differences across the community of nations that is Europe: since 2004 in particular, a tendency has developed whereby each country establishes its own definition of what solidarity in Europe should and should not be.

Often, differences in culture, history and energy policy among Europe's member states, where geopolitical, technical, industrial and technological conditions also differ, still lead to **conflicting outlooks and expectations** from governments and citizens on its own meaning and the mechanisms for its implementation.

Everyone has its own definition of solidarity, which is based on a national perception, making it more difficult to create a European concept of solidarity developed from concrete elements which should now be articulated at the European level. Can we achieve this synthesis that integrates energy solidarity as, among other things: a bond of charity, financial transfers from the "rich" to the "poor", accountability of some "free riders", reciprocity, collective insurance against risks, pooling of strengths and weaknesses in the international arena, social and interpersonal approach to energy, etc.? Such a synthesis can only be build incrementally.

Reflections to continue

Notre Europe – Jacques Delors Institute pursues a thorough reflection on the future of European energy policy, developing the policy proposal put forward by Jacques Delors on a “European Energy Community”. It has the merit of having opened a European wingspan debate engaged with various stakeholders: public, private, NGOs, local, national and European. Energy solidarity occupies a prominent place, and could eventually be a driving force in the further development of a European energy policy.

It remains appropriate for the EU and its member states to continue to reflect and debate around the issue of solidarity, including the question whether it would be better to focus energy solidarity around one or two priorities and objectives, or otherwise to continue to project energy solidarity on a growing number of equally critical energy issues.

The issue is also when the EU will be able to move on its own initiative, anticipating the future, and make decisions in the field of European energy policy that are based on a conscious and assumed choice on the benefit of a collective and united approach, based on the interdependence and solidarity of all member states, in a spirit of mutual trust.

In this regard, it seems essential to us that the energy solidarity within the EU mainly and **consistently involves the following five major components:**

- **Completion of the internal gas and electricity markets**, which creates a *de facto* solidarity through the liquidity of the energy flows in Europe, and the fact that gas and electricity flows can freely circulate all across Europe in all respects.
- **Security of supply** through physical infrastructures and effective mechanisms for mutual assistance based both on the needs to further integrate the various national energy networks through interconnection infrastructures, to ensure and improve the complementarities of national energy mixes, and on the European dimension of the system, which altogether allow to move from a *de facto* solidarity towards an active, dynamic and conscious solidarity.
- **Optimising the use of energy resources in the EU** in the context of energy transition(s), particularly in the field of promotion of renewable

energy and the essential energy infrastructures for their development, to ensure enhanced complementarity between national choices and also enable the diverse and multiple national solutions, all with their respective strengths and weaknesses, to combine into coherence and collective force of European energy policy, as the basis for further solidarity in the future.

- **Strong political will and leadership of the member states** based on collective approaches and extensive cooperation at European level in sensitive political areas, both inside the EU, with the security of supply based on the discipline and rigour of the *acquis communautaire* in the internal market, but also outside EU borders by seeking the most favourable agreements for the entire EU and in accordance with EU rules. The same political will is required for the coherent and collective treatment of issues related to resource optimisation within the EU, energy transition and its financing, access for all to affordable energy and the fight against fuel poverty, etc.
- In the name of solidarity, **reflecting the different levels of economic and social development and wealth of each member state** which encounter specific technical difficulties in adopting and implementing the European energy targets (20/20/20 in 2020) in the field of sustainable development.

A necessary subtle and complex balance between these aspects will again be at the heart of discussions that will animate the EU and its member states in the coming months and years and in the framework of negotiations on the European energy system post 2020, i.e. 2030. The increased smartness of the energy system of the future should facilitate the research and achievement of such balance.

Competition, cooperation and solidarity

It is finally important to remind that the European energy policy cannot be limited to the issue of solidarity. European energy policy, like a European Energy Community, includes three major components: competition that stimulates, cooperation that reinforces and solidarity that unites. Its development must be based on these three essential pillars, which are at the basis of the successful

experience of establishing a single European market for goods, services and so on.

Beyond solidarity, addressed on its own feet in this Study, the other two areas in question are already the subject of numerous developments and already have a number of concrete benefits within the framework of the existing EU energy policy, but also significant shortfalls that must be addressed as well.

Competition that stimulates. Free competition and an internal market are not ends in themselves but major tools that can be used to integrate national energy policies in a competitive and comprehensive European energy system. In this regard, at least on paper, competition is supposed to enable private market operators to compete on a national, regional and eventually European basis. It is also supposed to promote the liberalisation of national markets, provide incentive to reduce prices and to improve the quality of services and consumer choices, and give the impetus for the required investments in the various technologies needed.

However since it is not adequately implemented, rules are not properly implemented by member states and there is no genuine European regulatory approach, particularly in the form of a European regulator, competition is not yet a sufficient driver nor does it play the role that one should expect from it. Unfortunately, as most stakeholders have pointed out, tangible benefits linked to the process are slow in coming. The European Council has set the goal of establishing an energy market by 2014.

Cooperation that reinforces. European energy policy can neither be limited to the competition dimension of EU energy policy. Member states must also manage the interdependence that arises from competition within national, even regional, markets, which are progressively integrated via network infrastructures and other cross-border interconnections as well as market consolidation mechanisms such as market coupling.

Nevertheless, recent months and years have only highlighted the lack of cooperation between member states in the energy sector. For example, European countries have individually undertaken major changes in their policies, strategies, models and national market mechanisms without any consultation

whatsoever with their partners. They have failed to measure and anticipate the disruptive or even harmful impact that these changes have on their neighbouring countries, partially linked to their national energy network.

For example, Germany phased out nuclear power without any consultation, and even developed its renewable production unilaterally, which has had a number of adverse effects on neighbouring networks, including loop flows, and also has impacted the planning of energy import and export capacity of neighbouring countries. Another example is France, who established its own national stress tests for the nuclear industry and decided unilaterally and without consultation to reduce its share of nuclear energy in its energy mix from 75% to 50%, lowering the confidence of its European partners. Yet another example is the United Kingdom and a number of other member states who have decided to progressively implement, without consultation, capacity mechanisms that will inevitably have an impact on the competition of and within national markets. The same can be said about a number of price support mechanisms for electricity, especially in the area of renewable energies but also gas, which destabilise and fragment the regulatory framework at European level, resulting in distortions of competition and segmented national renewable energy markets. And so on.

In these areas as in others, there will be no satisfactory solution if there is not more frank and determined cooperation of member states. *Notre Europe – Jacques Delors Institute* continues to develop its reflection on these issues and plans to put forward further proposals in the future.

Last but not least, the EU remains above all a political construction, which should be receptive to its citizens' needs. European elections are scheduled for May 2014 and the EU should be able to promote a "positive agenda" that is based on a few concrete policies and projects. Energy should be on that agenda.

Vague wording and announcements that are not followed up will not suffice if the EU wants its citizens to continue believing that it has a purpose. It is now important to address citizens' concerns. They are calling for this common political project in the area of energy that meets their fears, their aspirations and their needs. The issue of energy solidarity between people, countries, regions and operators in Europe is likely to facilitate the success of this challenge.