

THE ENERGY UNION: PROSPECTS, GOALS AND CHALLENGES

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This Synthesis presents the main points and reflections discussed during the event “From the European Energy Community to the Energy Union” organised by the Jacques Delors Institute, the Société d’encouragement pour l’industrie nationale (Trust for National Industries) and the Mouvement Européen France on 20 May 2015 at the Hôtel de l’industrie in Paris.

Introduction

Energy and the issues of the European energy policy have always been at the heart of European integration and therefore of the work of the Jacques Delors Institute. Therefore, since 2007, the latter has been committed to a European Energy Community and has regularly dealt with energy issues.

Ahead of the publication of the strategic framework for the Energy Union adopted by the European Commission on 25 February 2015, the Jacques Delors Institute drafted the report entitled “From the European Energy Community to the Energy Union”¹. This report by **Sami Andoura** and **Jean-Arnold Vinois**, with a preface by Jacques Delors, which was published on 27 January 2015, examines the evolution of the European energy policy from 2007 to 2014 and proposes a series of concrete actions to develop an Energy Union.

This project raises several issues and still gives rise to numerous questions within civil society. This is why the Jacques Delors Institute has decided to organise a public event in order to present this project and its possible content and to discuss it with representatives of the French government, the European Commission and the private sector. The debate, chaired by **Pascal Lamy**, President Emeritus of the Jacques Delors Institute, was introduced by **Olivier Mousson**, Chairman of the Société d’encouragement pour l’industrie and led by a panel composed of **Harlem Désir**, Minister of State for European Affairs, **Gérard Mestrallet**, CEO of Engie and **Gerassimos Thomas**, Deputy Director General, Directorate General for Energy of the European Commission.

The event was divided into two parts: firstly the presentation of the report “From the European Energy Community to the Energy Union” followed by a debate with the authors of the report, the panel and the audience on the issues of the Energy Union.



1. The Report on the Energy Union

According to its authors, the report “From the European Energy Community to the Energy Union” “is the result of long-standing work that anticipated the current debate on the Energy Union”. Referring to the 2010 study “Towards a European Energy Community”² the objective of this report is “to propose a holistic approach to satisfy all the members of the energy sector”, given that “everybody expects sustainable and safe energy at an affordable price”. The **determinants of the building blocks for the Energy Union** proposed by Sami Andoura and Jean-Arnold Vinois are as follows:

- The shift from an energy economy based on supply to an **energy economy based on demand** (the consumer is thus at the centre of the energy system, which also implies the development of a

social energy policy, including both measures in terms of **education on energy** and intelligent mechanisms to include the **most vulnerable consumers** and to **fight energy poverty**);

- **Industrial innovation** (which should also be based on the **digitalisation of the energy sector**) and the implementation of **public-private partnerships** for cooperation and development in the energy field, based on decentralised and innovative systems;
- **A new model of governance** (that should involve all the players concerned by the current and future development of the energy sector);
- **Optimal use of available energy resources and infrastructure**, in order to combine existing strengths in the most effective manner to eliminate or reduce the weaknesses of each for the benefit of all;
- A **trade policy** that promotes and defends European interests in the field of energy (that should go hand in hand with a **European energy and climate diplomacy**);
- Lastly, a **European Energy and Climate Information Agency**, modelled on the American Agency, i.e. a dynamic tool to collect and exchange information and perspectives. The aim is to transcend national powers, to bring Eastern and Western Europe closer and to encourage regional energy cooperation, a springboard for an Energy Union that includes all the member states.

The creation of the Energy Union is a long-term project that should also be considered as the catalyst for the energy transition towards a low-carbon economy, stimulating innovation and economic growth while effectively fighting climate change and ensuring a successful energy transition.

2. Debate on the issues of the Energy Union

During the debate on the issues of the Energy Union, the participants spoke on the **shortcomings of the current policy** in terms of ensuring an energy supply, support for competitiveness and for sustainable development. This concerns the **European**

energy policy as much as **competing national interventions**.

2.1. Energy security

Concerning energy security, it should be remembered that the situation of the European Union, with an energy dependence rate of approximately 53% in 2013³, is still characterised by a **high dependence on external energy supplies**, leading to both a relatively high energy bill (over one billion euros per day)⁴ and, as we have seen from the crisis in Ukraine, limited room to manoeuvre in terms of external policy. What is particularly critical is the fact that six EU member states are 100% dependent on energy imports from Russia⁵.

Some speakers were of the opinion that the issues concerning security of supply have not been adequately taken into account, particularly because the EU institutions have remained “much too focused on sustainable development”. The Ukrainian crises of 2009 and 2014 did however prompt the EU to examine in depth and seriously address the issues of security of external supply.

The debate also underscored the importance for the EU to use its energy demand reduction tools and consequently reduce its energy dependence, through “energy efficiency (which has already greatly contributed to decreasing energy consumption), an increase in domestic energy production and lastly heightened diversification of energy supply sources”. The latter should be implemented within the framework of European diplomacy in the field of energy and climate, which “also is of long-term concern”.

2.2. Competitiveness

Concerning competitiveness, some lament the **excessive energy prices** that prevent European industry from being competitive, especially in relation to the United States, which is currently benefitting from the shale gas revolution. For electricity, the incompatibility of the market model, faced with a massive rise in renewable energy sources, has led to a still badly controlled mutation of the electricity system, leading to reduced wholesale rates, exorbitant retail prices, and an overcapacity of means of production. This also results from a lack of intelligence in a system that does not allow for optimisation of the balance between electricity supply and demand.

In addition to these structural issues, the effects of the economic crisis as well as the growing impact of energy efficiency measures that have decreased electricity demand since 2007, must not be forgotten. The lack of electricity interconnections also prevents the optimisation of available resources - in particular renewable- resulting resource waste due to the current absence of storage solutions.

These issues have led to the emergence of national measures to guarantee security of supply, in particular with the creation of capacity markets that challenge the European market, which needs to adapt quickly to this new order. These solutions should be part of a European framework and highlight the need for cross-border interconnections and greater regional cooperation.

2.3. Sustainable development

Concerning the “sustainable development” strand, it should be emphasised that the surplus supply of CO2 emission certificates has led to a **decrease in the price of carbon**. Given its negative impact on the balance of greenhouse gas emissions and on investment in new, low-carbon technologies, the current low cost per ton of carbon is a challenge to be addressed. Today it is being traded at around only €7.50 per ton (compared to its 2005 price, which was €29 per ton⁴).

The lack of such investment is therefore due to an exceedingly low price of CO2-rich energies such as coal, as they are not penalised by the price of CO2. Following the “shale gas revolution” that took off in the United States around 2010, American natural gas - which has become cheap and therefore more competitive - gradually led to the eviction of coal from the US energy mix, leading to the exportation of this cheap coal to Europe. The high price of natural gas in Europe removed it from the electricity mix, to the benefit of coal, as well as subsidised renewable energies, with major consequences on the profitability and long-term viability of gas-fired power plants.

In this way, the low price of carbon and the unexpected return of more polluting energies contribute to the increase of CO2 emissions in a certain number of EU member states.

The debate has underscored the need to “reform the carbon market” and to “create mechanisms

encouraging the use of carbon-free energies”. In this context, it is important to “take into consideration the countries that are still heavily dependent on coal”.

In general, the speakers regretted the **lack of integration and coordination between European climate policies and energy policies**. For Pascal Lamy, the key question in this context is “how the European Union can accelerate the energy transition without damaging its competitiveness”. Furthermore, he recalled the pioneering role of Europe in environmental policy. He believes that the European Union “has been identified internationally in relation to the energy transition for several years and that environmental issues have become a European mark”.

It is therefore important to “link the objectives of the Energy Union with those of the fight against climate change”.



Conclusion

It is, among other things, through the prism of the crisis of the European electricity system that the participants particularly welcomed the initiative of the Jacques Delors Institute, both for the appropriateness of its content and for its timing. For the speakers, the creation of the **Energy Union is an absolute must** to face up to the challenges linked to energy dependence and the issues of energy transition and climate change. In this context, they also agreed that the Energy Union is a common project that they believe can only be treated “collectively on a European scale,” i.e. “in cooperation with the EU member states and the private sector,” as Gerassimos Thomas recalled. **The principle of solidarity** is a

key element of the Energy Union. Furthermore, as Harlem Désir pointed out, the Energy Union is “an extremely powerful **factor of integration** from a political viewpoint” with which it might be possible to “take a step as important as that of the ECSC”.

According to Gérard Mestrallet, “a successful energy transition in Europe would be an unprecedented

movement and the **shift from an old world to a new one**”. The idea of the Energy Union is to “**move towards a different, more decentralised, low-carbon and digitalised world** for which technology is an important element”. A world in which the consumer should be at the centre.

1. Sami Andoura and Jean-Arnold Vinois, foreword by Jacques Delors, “From the European Energy Community to the Energy Union – A Policy Proposal for the Short and Long Term”, *Studies & Reports No. 107*, Jacques Delors Institute, January 2015.
2. Sami Andoura, Leigh Hancker and Marc van der Woude, foreword by Jacques Delors, “Towards a European Energy Community: A Policy Proposal”, *Studies & Reports No. 76*, Notre Europe - Jacques Delors Institute, March 2010.
3. See: http://ec.europa.eu/eurostat/statistics-explained/index.php/Energy_production_and_imports/fr
4. See: <http://ec.europa.eu/energy/en/topics/energy-strategy/energy-security-strategy>
5. See: <http://www.euractiv.com/sections/energy/eu-dependent-russian-gas-foreseeable-future-warns-iea-310469>
6. See: <http://www.bundesregierung.de/Content/DE/Artikel/2015/04/2015-04-09-emissionshandel-klima.html>
7. See: <https://www.eex.com/de/>

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Sami Andoura and Jean-Arnold Vinois, *Video*, Jacques Delors Institute, May 2015

FROM THE EUROPEAN ENERGY COMMUNITY TO THE ENERGY UNION
Jacques Delors, Sami Andoura and Jean-Arnold Vinois, *Tribune*, Jacques Delors Institute, January 2015

FROM THE EUROPEAN ENERGY COMMUNITY TO THE ENERGY UNION – A NEW POLICY PROPOSAL
Sami Andoura and Jean-Arnold Vinois, foreword by Jacques Delors, *Studies & Reports No. 107*, Jacques Delors Institute, January 2015

TOWARDS A EUROPEAN ENERGY COMMUNITY: A POLICY PROPOSAL
Sami Andoura, Leigh Hancker and Marc van der Woude, foreword by Jacques Delors, *Studies & Reports No. 76*, Notre Europe – Jacques Delors Institute, March 2010

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