Energy Union Factsheet

Brussels, 25 February 2015

Why is the Commission proposing an Energy Union now? Why do we need an Energy Union?

The European energy system faces an ever more pressing need to ensure secure, sustainable, affordable and competitive energy for all citizens. Excessive dependence on a limited number of supply sources, especially for natural gas, leaves countries vulnerable to supply disruptions. We must reduce our dependence on fossil fuels and reduce greenhouse gas emissions, and the affordability of energy and the competitiveness of energy prices are of increasing concern to households and businesses.

Persistent obstacles to real market integration, uncoordinated national policies and the absence of a common stance vis-à-vis non-EU countries impede progress. The effective response to these challenges is a more cohesive set of measures across policy areas and at EU and national levels. The agreement on the 2030 Framework for Climate and Energy as well as on the European Energy Security Strategy in 2014 were major steps forward that the Energy Union builds on, but new and strengthened measures are needed to effectively meet the challenges ahead of us.

The Framework Strategy for the Energy Union sets the vision for the future and integrates a series of policy areas into one cohesive strategy. It incorporates mutually reinforcing initiatives which – when fully implemented – will ensure that the EU is better placed to meet its challenges based on solidarity and trust between Member States.

What does the Energy Union include? Why were these particular priority areas chosen?

The Energy Union is based on the three long-established objectives of EU energy policy: security of supply, sustainability and competitiveness. To reach these objectives, the Energy Union focuses on five mutually supportive dimensions: Energy security, solidarity and trust; the internal energy market; energy efficiency as a contribution to the moderation of energy demand; decarbonisation of the economy; and research, innovation and competitiveness.

All these dimensions are areas that require more integration and coordination. Within these dimensions, the action plan annexed to the framework strategy presents specific measures that will be prepared and implemented over the next years. This action plan will be followed-up and reviewed as time progresses to ensure that it keeps responding to evolving challenges and new developments.

Energy security

What is the Energy Union proposing for the diversification of sources and suppliers?

The EU imports 53% of the energy it consumes. Some countries depend for their gas imports on one main supplier. Diversification of energy sources and suppliers is a key means of improving our energy security. Exploring new supply regions for fuels, exploring new technologies, further developing indigenous resources and improving infrastructure to access new sources of supply are all elements that will contribute to the increased diversification and security of Europe’s energy sector. In this context, and as far as gas is concerned, the Commission will develop a resilience and diversification package for gas, which in particular will include a revision of the Security of Gas Supply regulation. As regards diversification work is on-going as regards the Southern Gas Corridor, the development of a strategy to better use the potential of liquefied natural gas and storage, and the establishment of liquid gas hubs with multiple suppliers in Central and Eastern Europe as well as in the Mediterranean.

Will the Energy Union promote/facilitate the common purchase of gas?

Building further on the European Energy Security Strategy from May 2014, the Commission will assess options for voluntary demand aggregation for collective purchasing of gas during a crisis and where Member States are dependent on a single supplier. Any such measures would have to be in full compliance with WTO rules and EU competition rules.
The Communication mentions transparency of contracts. What kinds of contracts are involved? IGAs, also commercial contracts?

Compliance checks for Intergovernmental Agreements (IGAs) are currently carried out after a Member State and a non-EU country have concluded an agreement. In future, the Commission should be informed about the negotiation of intergovernmental agreements from an early stage, so that a better ex ante assessment of IGAs' compatibility with in particular internal market rules and security of supply criteria is ensured. Commission participation in such negotiations with third countries and a move towards standard contract clauses will also more effectively avoid undue pressure and ensure respect of European rules. Therefore, the Commission will review the Intergovernmental Agreements Decision and will propose options to ensure that the EU speaks with one voice in negotiations with third countries.

As regards commercial gas supply contracts, transparency has to be further strengthened. The Commission will make a proposal on this issue in the context of the revision of the Security of Gas Supply Regulation.

What is the Commission proposing for electricity diversification, considering much of the focus has been concentrating on gas diversification?

Electricity is mainly produced inside the EU, based on a wide range of sources and technologies. Member States have made different energy mix choices as a result of resource availabilities and national preferences. Electricity interconnections between Member States are crucial to exchange electricity across borders as the energy mixes of Member States are often complementary. The changing situation on the electricity market, in particular the increasing share of renewables, requires further measures to enhance market integration.

Internal energy market

What does the Commission mean by a new market design? Why is it needed?

Meeting the current challenges of the electricity market, in particular the integration of variable renewable energy and ensuring security of supply, requires a market design that provides for coordination of capacities at regional level, storage and more flexibility in demand response, enabling consumers to better participate in markets and allowing energy to be exchanged across borders with more ease. To this end, the Commission will provide enhanced rules for cross-border energy trade and propose appropriate measures to encourage renewable energy producers to better integrate in the wider electricity market.

Will the Commission propose a European energy regulator?

The Commission will consider how to strengthen the European energy regulatory framework so it can better govern the increasingly integrated European energy system. The Commission considers that EU-wide regulation of the single market should be strengthened through a significant reinforcement of the powers and independence of ACER. This is necessary for it to effectively oversee the development of the internal energy market and the related market rules as well as to deal with all cross-border issues necessary to create a seamless internal market.

How is the Commission going to leverage investment in energy infrastructure?

Energy infrastructure is typically financed by the market and through tariffs paid by the users of the networks. Only a small number of infrastructure projects in Europe will need grants under the Connecting Europe Facility (CEF) to go ahead. These are projects which are not commercially viable, but are necessary because of the externalities they provide: security of supply, solidarity or technological innovation.

Many other projects could make use of other financing methods that provide more leverage than the grants/direct financial aid. This is the case for the financial instruments which are part of the CEF but more so for the European Fund for Strategic Investments (EFSI) which will be a very important instrument complementing the CEF in order to finance energy infrastructure projects in Europe. It will help where financing for projects is not available from other sources on reasonable terms accepting a higher risk profile.

Will the Commission propose energy taxes?
The framework strategy for the Energy Union does not include any new initiatives relating to energy taxation at the EU level. The Commission encourages Member States to take a fresh look at energy taxation both at national and European level. National taxation policies should strike the balance between providing incentives for a more sustainable energy use on the one hand and the need to ensure competitively priced and affordable energy to all consumers on the other. It will produce biennial reports on energy prices, with an in-depth analysis of the role of taxes, levies and subsidies, in order to create more transparency on energy costs and prices.

**Energy efficiency**

**What concrete measures is the Commission proposing to enhance the energy efficiency of the building sector?**

The rates of building refurbishment are insufficient, with efficiency investments in buildings for low-income tenants or owners being particularly slow. Heating and cooling remains the largest single source of energy demand in Europe. The Commission will therefore carry out a review of the Energy Efficiency and Energy Performance of Buildings Directives to create the right framework for further progress in delivering energy efficiency in buildings. Based on the on-the-ground experience in the Member States, the Commission will support ways to simplify access to existing financing to make building stocks more energy-efficient. Investments in buildings’ efficiency are amongst the most profitable for citizens and industry today.

**What measures is the Commission proposing to support energy poverty and vulnerable consumers?**

Energy poverty mostly results from a combination of low income and general poverty conditions, inefficient homes and a housing tenure system that fails to encourage energy efficiency. It can therefore best be tackled by a combination of measures, with energy efficiency improvements being the best long-term solution. Where it is necessary to shield vulnerable customers through social policies within the competence of authorities on the national, regional or local levels, protection should preferably be provided through the general welfare system. If provided through the energy market by means such as a “solidarity tariff” or as a discount on energy bills, it is important that such a system is well targeted so as to also limit overall costs and the resulting extra-costs for non-eligible customers.

**Decarbonisation**

**What are the Commission’s plans for making Europe the leader on renewables?**

The Energy Union will ensure that renewable energy is mainstreamed and fully integrated into a fully sustainable, secure and cost-efficient energy system. This will allow the EU to remain a world leader in competitive renewable energy technology and innovation, and smart and flexible energy systems and services.

For this to happen, the Commission will:

- fully implement existing legislation and put in place new market rules in order to integrate renewable production efficiently into the market, including by the development of new infrastructure, especially interconnections;

- facilitate cooperation and the convergence of national renewable energy policies and support schemes in line with the development of the internal market and in particular the new electricity market design, which will ensure fair competition between all generation sources as well as demand and lead to more cross border opening of renewables support;

- promote more focused renewable energy research and demonstration, including through dedicated EU funds;

- ensure that the renewable heating and cooling sector significantly contributes to EU energy security;

- speed up the decarbonisation of the transport sector, including by promoting the electrification of the transport sector and investments in advanced biofuel production, and further integrate the energy and transport systems.

This will lower the overall financing cost for renewable projects and facilitate the achievement of the 2020 and 2030 targets.
Why did EU leaders decide on a domestic emission reduction target of at least 40% for 2030?

The at least 40% domestic greenhouse gas emission reductions compared to 1990 to be achieved by 2030 is a headline target of EU climate policy, that has been endorsed by EU leaders in October 2014. At EU level, this is the cost-effective target that keeps us on the pathway to a low-carbon economy by 2050. At international level, the at least 40% domestic emission reduction target will serve as a basis for EU's input to the international negotiations on a new climate agreement in Paris in December 2015 and contribute to the necessary actions to keep global average temperature increase below 2ºC compared to pre-industrial levels.

The at least 40% greenhouse gas target will be delivered by the EU in the most cost-effective manner possible. This requires emission reductions for the sectors in the carbon market (EU's Emission Trading System) and the sectors out of it (non-ETS sectors): 43% for the ETS and 30% for the non-ETS compared to 2005 to be achieved by 2030. The domestic nature of the emission reduction target means that it has to be achieved via emission reductions happening in the EU.

What are the costs and benefits of the at least 40% emission reduction target for the EU, its citizens and businesses?

The at least 40% emission reduction target contributes to the Juncker Commission priorities of boosting growth, increasing competitiveness and creating jobs for EU citizens. The target is realistic and is expected to improve our energy security and resource efficiency while fostering green growth and competitiveness, spurring low carbon investments, increasing demand and revenues for industrial sectors producing low carbon technologies, and generating green jobs in new growth sectors such as engineering, basic manufacturing, transport equipment, construction and business services.

Apart from its crucial importance for EU climate policy, the attainment of the target has multiple energy, economic and environmental benefits. From an energy perspective, meeting the emissions reduction target will result in less consumption of fossil fuels. This, in turn, will reduce the vulnerability of our economy to fuel insecurity and high costs of imported fuel. The estimated fuel savings amount to at least € 18 billion in the next two decades[1]. Furthermore the costs of a low carbon transition do not differ substantially from the costs that will be incurred in any event due to the need to renew an ageing energy system. From the environmental perspective, meeting the target will also reduce air pollution.

What are the next steps the Commission will take to implement the at least 40% domestic greenhouse gas reduction target?

The 2030 climate and energy framework forms an integral part of the Energy Union and contributes to the transition to a low carbon economy.

The EU will have to adopt implementing legislation on many aspects of the 2030 climate and energy framework following the endorsement by the European Council.

The first priority is the adoption of the Commission proposal for a market stability reserve to improve the functioning of the EU ETS as the main instrument of EU climate policy. After that the Commission will proceed with legislation on the revision of the EU ETS Directive for the period post-2020, including carbon leakage.

The Commission will also embark in 2015 on analytical work and impact assessments concerning the national targets for emission reductions in the non-ETS sectors, including improved flexibility mechanisms in the non-ETS sectors and incorporation of land use, land use change and forestry (LULUCF) in the 2030 framework, with a view of presenting legislative proposal(s) in early 2016.

The Commission is foreseeing changes to the ETS. What does this include? Why is it needed now?

Based on a European Commission proposal from 2014, the European Parliament and the Council currently discuss legislation to reform the EU ETS by introducing a market stability reserve (MSR). This feature has been designed to increase the shock resilience of the EU ETS in the future. At the same time it allows to neutralise negative impacts of the prevailing significant market surplus on low-carbon investment incentives. The co-legislators are currently negotiating MSR design elements which will determine the pace of absorbing surplus allowances into the MSR.

Beyond this reform process, the Commission will propose further changes to the legislation swiftly
after the MSR legislation has been agreed. These further changes are needed to implement the strategic guidance of EU leaders on how the EU ETS should operate in the decade up to 2030. This includes an increase in the linear reduction factor (the rate at which the emissions cap is tightened from year to year) from 1.74 % to 2.2 % as of 2021.

In addition, legislation will be changed to allow industry to benefit from carbon leakage measures and free allocation of emission allowances beyond 2020 in line with principles agreed by EU leaders.

Finally, changes to the ETS Directive will be made to create a legal basis for establishing an innovation fund and a modernisation fund. These two financial vehicles are funded from the proceeds of allowances in 2021 to 2030. The innovation fund will support low-carbon demonstration activities across the EU and the modernisation fund will support the modernisation of energy systems in low-income Member States.

What action will be taken for road transport in general and cars in particular?

Transport is the EU's second-biggest greenhouse-gas-emitting sector after energy. Transport represents about one-fifth of all emissions and road transport accounts for some 80% of these. The EU has already put in place a range of policies and legislation aimed at lowering these emissions and mitigating their impact on climate change which include:

- Mandatory CO2 targets for cars and vans
- A strategy to reduce fuel consumption and CO2 emissions from trucks and buses
- Targets to increase renewable fuels in transport and to reduce GHG emissions from road transport fuels
- A requirement for public authorities to account for energy use and CO2 emissions when procuring vehicles
- Legislation requiring Member States to develop national policy frameworks for the market development of alternative fuels and their infrastructure

EU leaders called for a comprehensive and technology neutral approach for the promotion of emissions reduction and energy efficiency in transport, for electric transportation and renewable energy sources in transport also after 2020. The Commission will now examine the instruments and measures, building on existing successes, to decarbonise road transport.

In June 2015 the Commission will organise a Stakeholders Conference on driving the Decarbonisation of the Road Transport forward.

Governance

What tools does the Commission have to make sure that the Energy Union proposals will be properly implemented and followed-up by the Member States and other actors?

In order to make sure that energy related actions at European, regional, national and local level all contribute to the Energy Union's objectives in a coherent way, a reliable, transparent and integrated governance system for the Energy Union will be launched. The governance should secure the attainment of the objectives of the Energy Union, notably the implementation of the internal energy market and the delivery of the 2030 Framework for Climate and Energy. It should also provide long-term investor certainty. In doing so, the governance process should streamline existing planning and reporting mechanisms for energy and climate policies and reduce unnecessary administrative burdens while monitoring the implementation of the acquis communautaire. At the same time, the governance should deepen the cooperation between Member States and with the Commission. The Commission will publish an annual State of the Energy Union in order to address the key issues, produce the necessary deliverables and steer the policy debate.

How will research and innovation contribute to the Energy Union’s agenda?

Energy research and innovation is a key building block of the emerging Energy Union. Increasingly coordinated both by the European Union and by its Member States, today's discoveries in energy research are opening new opportunities to create a more secure, sustainable and competitive energy system for the future.

Given its cross-cutting nature, research and innovation will contribute to all dimensions of the Energy Union and help Europe achieve its ambitious climate and energy targets.
A vital contribution to the objectives of the Energy Union will come from the implementation of Horizon 2020, the nearly €80 billion EU Framework Programme for Research and Innovation. This financial support will play a significant catalysing and leveraging role to develop the secure, clean and efficient energy technologies of tomorrow. The Energy theme, which is part of the key societal challenges addressed in the programme, is broad, far-reaching and will help to improve lives, protect the environment and make the European industry more sustainable and competitive.

**How will European cohesion policy contribute to the Energy Union strategy?**

Cohesion Policy will play a strong role in delivering the Energy Union on the ground, in projects that bring real benefits to the citizens as regards energy. Indeed, with the significant funding available for investments in the shift to a low-carbon economy, about €38 billion over 2014-2020, Cohesion Policy will help Member States, regions, local government and cities implement much needed investments in energy efficiency in buildings, renewable energy, smart grids or sustainable urban transport. In line with some of the key objectives of the Energy Union, our investments will therefore help to decrease costly energy imports, diversify our energy sources, tackle energy poverty, cut emissions as well as create jobs and support small and medium sized businesses.

The Commission is currently working on providing further support to Member States as regards technical assistance, not least on financial instruments, which will also be key in addressing energy efficiency challenges.

[1] 2030 climate and energy framework impact assessment, p.78, table 14

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