

## PANEL 1

### State of the Energy Union

*Prepared by the European Affairs Department of the Chancellery of the  
National Council of the Slovak Republic*

#### About the project

In February 2015, the European Commission introduced the so-called Energy Union (EEU) package which aims to ensure 'secure, sustainable, competitive and affordable energy for consumers within the EU.'<sup>1</sup> The package consists of three Commission's communications to the European Parliament and the Council, namely: a) Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy, b) The Paris Protocol – A blueprint for tackling global climate change beyond 2020, c) Achieving the target of 10% electricity interconnection.

In order to meet these objectives, the project places adequate emphasis on the integrated governance and monitoring system in the field of energy at the European, national, regional and local levels. Effective and integrated national energy and climate plans form the basis for the reliable and transparent functioning of the 'new governance' system, the objective of which is to reduce administrative burden. It is supported by the Commission's aim to maintain the freedom of choice within the robust governance structure concerning the energy mix during transition to decarbonised economy.

#### Five Priority Dimensions

The EEU project is based on five interconnected dimensions and these are: energy security, solidarity and trust; the internal energy market; energy efficiency, which helps optimising energy consumption; decarbonisation of the economy; and research and development. In order to achieve the EEU's objectives, the Commission has drawn up an action plan containing specific legislative and non-legislative measures.

The priority of improving energy security, solidarity and trust should be implemented through increased orientation towards the use of countries' own energy sources focusing on their enhanced diversification as well as the diversification of energy suppliers and transport routes. Closer cooperation at

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<sup>1</sup> EC: Energy Union Package, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank "A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy", COM(2015) 80 final

international and regional levels is also emphasised in this context. Strengthening and integrating the internal energy market can be achieved through improving energy interconnections, implementation and enforcement of legislation, and fostering cooperation between Member States. Energy efficiency should contribute towards reducing energy demand. Within this dimension, the EU aims at improving its energy efficiency by at least 27% by the year 2030, with particular focus on the construction and transport sectors.

One of the commitments of the EU regarding the climate change is to reduce domestic greenhouse gas emissions by at least 40% in comparison with 1990. The emissions trading scheme as well as the EU's high ambitions concerning the renewables will also contribute towards the decarbonisation of the economy. Supporting innovation and research is a prerequisite to fulfilling the EU's ambitions. That is why the EU focuses its attention in this field on the development of smart grids, smart domestic technologies, green transport, clean fossil fuels, and safe nuclear energy generation.

### Complying with commitments

#### *The Commission's work*

The Commission is working on a package of measures aimed at increasing the resilience and diversification of gas supply as part of the review of the current Security of Gas Supply Regulation, and is preparing a comprehensive strategy for LNG and its storage.

The first important legislative proposals published by the Commission in February 2016 under the first pillar include a proposal for the revision of the Security of Gas Supply Regulation which, *inter alia*, gives Member States an opportunity to participate in cooperation in more than one region, and a proposal for the revision of the Decision on the publication mechanism of intergovernmental energy contracts.

Regarding energy efficiency, the Commission is planning to publish, by the end of 2016, proposals for the revision of the Energy Efficiency Directive and the Energy Performance of Buildings Directive. Energy efficiency plays a fundamental role within the EEU project because it directly influences its other dimensions. It also has significant potential within the EU to achieve more energy savings, which requires further intensification of discussions on legislative changes in the above mentioned directives. Together with the new proposal for a Regulation on the Energy Labelling of Products, published last year, these documents can contribute towards meeting the energy saving objective for 2030. Towards the end of 2016, the Commission is also planning to publish a legislative proposal for the new energy market design, proposal for the security of energy supply, for the use of renewable sources, and the new EEU governance.

In accordance with the solidarity mechanism, the procedures for information flows between the requesting state and the state providing help have been established. For the purposes of improving transparency, a new scope of information on gas companies' contracts has been proposed.

Fostering energy security within the EU is, *inter alia*, connected with the adoption of a revision of the Commission's Decision on intergovernmental energy contracts. It will increase the transparency of energy supplies from third countries to the EU, which will be ensured through an information exchange mechanism. This will also ensure compatibility of agreements with third countries with the European energy legislation. With the aim of enhancing energy security and reducing dependence on individual suppliers, the EU focuses on closer cooperation among Member States so as to facilitate their access to alternative suppliers, including through the Southern Gas Corridor, the Mediterranean and Algeria.

As has been already stated, another important subject which has an impact on citizens is the currently discussed Proposal for a Regulation on the Energy Labelling of Products, the consultation process for which is exceptionally demanding and accompanied by complicated negotiations concerning product rescaling and product database. The aim of this process is to give EU citizens better guidance when choosing energy-efficient products as early as next year.

The new energy market legislation, which the Commission plans to introduce towards the end of 2016, should aim at engaging consumers on the demand side to a higher degree and put in place a flexible system of reliable electricity supply, which will further foster energy security. The new legislation will also deal with the coordination of national energy systems which will contribute towards increased compatibility of individual Member States' energy policies in order to fulfil the EU's energy and climate commitments by 2030.

The Vice-President of the Commission and Commissioner responsible for the EEU, Maroš Šefčovič, will introduce the second report on the state of the EEU by the end of 2016. It will contain a summary of actions taken during the building process of the EEU in 2016 which is 'the year of delivery' and introduce energy priorities for the following period. It will mainly emphasise proposals aimed at improving energy efficiency of buildings, the new eco-design, and the new European energy market design.

#### *Situation at the EU level and in Member States and Regions<sup>2</sup>*

The EU is on track to achieve the objectives of the Europe 2020 strategy concerning greenhouse gas emissions (reducing them by 20% by 2020 in comparison with 1990). The emissions in the EU in 2014 were 23% lower than in 1990 and, according to the Member States' latest projections, they are expected to be 24% lower in 2020 than in 1990. The EU as a whole is on track to meet the 2020 renewable sources objectives. All Member States, except for three, achieved their 2013/2014 interim targets based on data from 2013.

Most Member States should adopt further measures to strengthen the ambitions and efforts to achieve their energy efficiency national targets by 2020. All Member States but four managed to lower their energy intensity in the manufacturing and construction sectors in the period between 2005 and 2013. Performance indicators show deterioration in the sector of electricity generation in most countries. It is

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<sup>2</sup> EC: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank. State of the Energy Union 2015 report. COM (2015) 572

important that Member States tap the potential of highly-efficient cogeneration installations and highly efficient district heating and cooling installations.

There are profound differences between Member States; many of them have not yet fully implemented the rules necessary to achieve competitive and liquid markets. When it comes to electricity infrastructure, most Member States have reached the 2020 target for 10% of capacity electricity interconnection. Interconnections are still needed to further deepen internal electricity markets (e.g. in South-Western Europe). Their creation is also necessary between some Member States located in Northern and Eastern Europe and better interconnection is also needed between Member States and the rest of North-West Europe. All Member States must provide their consumers with better information regarding energy efficiency and keep on improving investment conditions for private consumers. Furthermore, in order to effectively address the issue of energy and fuel poverty, more targeted measures are necessary for vulnerable consumers. Only some Member States have managed to strengthen the position of consumers through the adoption of smart metering. In a number of Member States, administrative burdens continue to discourage consumers from switching suppliers and thereby benefit from better contractual conditions. Most electricity wholesale markets in the EU at the regional level were interconnected with one or more neighbouring markets by the first half of 2015 and price convergence is notable. In the case of gas, the situation is different. Despite a certain price convergence on the main European gas nodes, there are significant price differences and feeble market integration within the EU, which is partly due to long-term contracts and missing interconnections.

The EU has made some progress in the diversification of energy sources, routes and suppliers. However, approximately 40% of gas imported to the EU in 2013 came from Russia and several Member States remain fully or largely dependent on the Russian gas supplies. The northern countries, in particular, need to be better connected to the Central European gas market. It is necessary to improve connections between Member States and make sure that all Member States have access to liquefied gas terminals and are able to make use of the LNG capacity which some countries have already developed or are expected to develop. Member States must also foster (regional) cooperation aimed at ensuring the security of electricity supply and generation adequacy.

### **Points for discussion:**

- The importance of the Cohesion Policy for the EEU and the importance of the EEU for the Cohesion Policy.
- Possible changes in the US foreign, trade and environmental policies and their anticipated impact on the EU's environmental ambitions and competitiveness.
- Financial resources and tools to support the EEU. The potential of the European Fund for Strategic Investments (EFSI).