



WHAT FUTURE(S) FOR EUROPEAN ENERGY GOVERNANCE ?

HIGH-LEVEL POLICY CONFERENCE FOR THE LAUNCH OF THE COLLEGE OF EUROPE'S
EUROPEAN ENERGY POLICY CHAIR, APRIL 24TH 2014, BRUGES

Background note for debates – Sessions 1 and 2

While the European Union is preparing for the next step in its energy transition and the *decarbonisation* of its economy, the main objective of this high-level conference, organised for the launch of the European Energy Policy Chair of the College of Europe in Bruges, is to clearly identify the main challenges which will arise with the revision of the European framework for energy and climate policies until 2030.

The first session of the conference (10h-12h) will put EU energy policy into perspective, considering it in a global context, with the aim of better understanding the international energy setting within which European Energy Policy is being formulated (Session 1). The second session (13h30-15h) will address the future of European Energy Governance, reflecting on how to find the right balance between sustainable development, competitiveness and security of supply of the European energy system (Session 2).

Session 1. The EU from outside – Where is the EU on the global energy picture?

Background

The world of energy is the object of rapid change at the global level, raising as many questions as it offers opportunities for the European Union and its still developing energy policy. The EU has taken the lead in the international fight to limit CO₂ emissions, in order to limit the future increase of the Earth's temperature to 2 degrees Celsius. The 21st Conference of the Parties at the United Nations Framework Convention on Climate Change in 2015 in Paris should be decisive in this respect, with the objective of finding a common agreement among all parties on the way forward, with binding and far-reaching commitments.

The energy sector, being the heaviest producer of CO₂ emissions, is at the heart of this transition towards a low-carbon society model, and will need to undergo an unprecedented transition. However, the sole concept of energy transition encompasses definitions, realities and ambitions which vary substantially from one country to another, making a common approach and collective action all the more difficult to achieve. If numerous actors, in Europe and beyond, have engaged on the path of decarbonisation, such efforts could prove insufficient, and they have not yet demonstrated their capacity to rally slower actors, or more reticent ones, to support their cause.

This unclear energy transition is being formulated in an unstable and constantly evolving international context, at the heart of increasingly complex dynamics. Hydrocarbon prices have been subject to growing fluctuation since 2007. The unexpected development of unconventional gas (and oil) in the United States has to a large extent redefined the country's energy profile, bringing it from the status of importer to that of exporter. The impact of this phenomenon on energy markets, but also the consequences for industrial competitiveness on a global scale will be considerable. At the same time, a number of other regions in the world offer new opportunities for exploration and production of conventional and non-conventional hydrocarbons, be it in Africa, in South America, in Central Asia, in the Eastern Mediterranean, or in the Arctic region. Continuous growth in Asia, led by China and India, but not only, is accompanied by massive energy consumption. This alone attracts an increasing share of hydrocarbon resources on the global scale. In general, competition for access to these resources has increased significantly.

All these realities will have important repercussions for the EU, who is becoming increasingly dependent on its energy supplies. This increasing dependence falls in a context of renewed tensions between Ukraine and Russia in the EU's eastern neighbourhood, which put significant pressure on the security of its supplies coming from that region. Over the past few years, the EU has made progress in diversifying its sources and securing its gas supplies. However, the challenges that arise from the situation in the neighbourhood highlight the capacity, or lack of capacity, of Europeans to ensure their energy security. This is as much the case in the short term (in cases of supply disruption), as in the medium term (in the framework of the necessary diversification of energy sources and resources). Today, energy is a major component of EU foreign policy. It is therefore necessary for any energy policy, be it national or European, to fully take into account the international context of interdependence within which it operates.

Objective

The aim of this first session is to understand the strategies of the various foreign or 'outside' actors, to measure the foundations of such strategies and the impacts they can have on internal EU dynamics. This session will also seek to put into perspective, as far as possible, the new emerging energy equilibriums. Finally, the session will aim to identify the impact that national - and European - level decisions can have on the global, regional and local equilibriums.

Session 2. The one million question - How can the three key objectives of competitiveness, sustainable development and security of supply be reconciled?

Background

The EU has committed to a transition towards a low-carbon economy with the aim of cutting its greenhouse gas emissions by 80% (or even by 95%) between now and 2050. It had already begun to pursue a comprehensive transition process with the adoption of the First Climate and Energy Package in 2008 providing for a 20% cut in CO₂ emissions, 20% renewable energy, and a 20% increase in energy efficiency by 2020. The EU is on the right track to achieve the first two binding targets but is lagging behind the third, nonbinding target.

The production of electricity from renewable sources has increased considerably (rising from 15% to 23% between 2005 and 2012), making it possible to cut the Union's hydrocarbon bill. This increase, however, is primarily the result of costly, non-market based, national subsidies that are not always supported by adequate infrastructure thus preventing an efficient integration of renewables into the network. Electricity prices on retail markets are rising while wholesale prices are either stable or dropping. The European Union Emissions Trading Scheme (EU-ETS), with its low prices for carbon, is

not working as planned. Exports of cheap coal from the United States towards the EU are increasing. And a growing number of gas fired power stations, which are no longer profitable in this situation, are shutting down.

These developments are a source of tensions and are jeopardising the energy transition in Europe in the medium-to-longer term: tensions between the three goals of sustainable development, competitiveness, and security of supply ; and tensions between unilateral national policies that are destabilising the European energy system as a whole, sometimes prompting superfluous investment which comes at considerable cost to the taxpayer, and threatening the security of the entire electricity system. The crucial issue, at this stage, is to determine to what extent the new 2030 Climate and Energy Package will address these various challenges and provide appropriate answers to them.

The key elements proposed in the package are as follows: new goals for 2030 with a binding target of a 40% cut in CO₂ emissions, and a “binding target at the European level but not at the national level” of 27% in renewable energy with member states allowed a degree of flexibility in setting both their national targets and the means to achieve those targets; a strengthened European governance instrument organised by the Commission and designed to guarantee the coordination of national policies and the consistency of the system; a policy to accompany the development of renewable energy sources, which is supposed to be broadly dictated by the market and accompanied by strong measures to increase storage capacities and cross border interconnections, and the development of smart and interactive networks to allow for improved management both of the system and of demand; economic and financial instruments (around €35 trillion) to support research, energy savings, renewable energy sources, and transport and storage infrastructures; other sectorial measures, including a review of the EU-ETS with the implementation of a market stability reserve from 2021, or the development of a set of key energy indicators allowing for the assessment of progress made; and so forth.

The next European legislative term will have its work cut out adopting and implementing the binding instruments reflecting the new realities and needs of the energy policy of the EU and its member states, and paving the way for an increasingly necessary “Common European Energy Policy”.

Objective

The aim of this second session will be to explore and to debate over to what extent the current revision of European Energy Policy will enable it to meet its assigned objectives, i.e. fighting climate change by decreasing CO₂ emissions, guaranteeing predictability for investments in low-carbon technologies, guaranteeing security of hydrocarbon supplies but also security of supply in the electricity field, and finally responding to the major economic and political challenges posed by the social acceptability of the cost of the energy transition and the loss of European industrial competitiveness. Other structural problems relating to the essential instruments for the implementation of European energy policies will have to be addressed, from the lack of finalisation of the internal market to the necessary revision of the European Emissions Trading System (EU-ETS).