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ENERGY UNION

I. BACKGROUND

In February 2015, the European Commission published a Communication on “A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy”, which was endorsed by the European Council in March 2015. The so-called “Energy Union” has five closely interrelated and mutually reinforcing dimensions:

- Energy security, solidarity and trust
- A fully integrated European energy market
- Energy efficiency contributing to moderation of demand
- Decarbonising the economy
- Research, Innovation and Competitiveness

while it also highlights effective governance as a key parameter to success.

Regional authorities have the potential to be involved and play a role in the above areas, especially in governance, energy efficiency, decarbonisation of the economy and in research, innovation and competitiveness.

II. WHAT THE ENERGY UNION IS ALL ABOUT?

The European Union has entered into a new political cycle as well as in a new programming period for major European policies. The Energy Union, being one of the 10 priorities of the new European Commission, aims to become an integrated framework for energy related policies that would also ensure enforcement of EU external energy policy and internal energy market rules, the latter being the backbone of the Energy Union. According to the European Commission the new framework builds on the Energy Security Strategy published in May 2014, where the vulnerabilities of the European Union to external energy shocks were set out and as a result the European Commission called on policy makers at national and EU level to make clear choices in reducing the EU's dependency on particular fuels, energy suppliers and routes.

The strategic objective of the Energy Union, the rationale behind the timing when it emerged as one of the 10 priorities of the new European Commission, as well as the weights of its five dimensions are revealed if one considers that the EU is the largest energy importer in the world, importing 53% of its energy, at an annual cost of around €400 billion, the disruptions and risks its energy supply faced during recent winters and the geopolitical crises that still arise in proximity to its borders creating political instability. In addition, an appropriately interconnected European energy grid is estimated to save consumers up to €40 billion a year. The new framework also aims to further enforce internal energy market and competition, while it is also clearly in line with traditional EU policy priorities, such as energy efficiency and low carbon economy. The fifth dimension of the new framework, “Research, Innovation and Competitiveness”, which can also be found in the 10 priorities of the new European Commission, makes the link with employment and growth.

The Energy Union aims to enable the roll-out of new technologies and smart grids, and also of demand response schemes for an efficient energy transition, while also to achieve a more active role and involvement of consumers. The latter will eventually be able to switch energy suppliers more easily, even to suppliers in other Member-States, while smart technologies are expected to help consumers and energy service companies

to reap the opportunities available on the energy market, to deliver more flexibility in the market and potentially reduce consumer bills.

In brief, the bottom line of the Energy Union framework is strengthening the electricity and gas interconnections between Member States, reinforcing the internal energy market for the benefit of consumers, further increasing energy efficiency, considered as energy resource and achieving an active energy demand, and boosting market-driven renewable energy and the relevant research and innovation.

III. HOW REGIONAL AND PERIPHERAL-FRIENDLY CAN THE ENERGY UNION BE?

A considerable share of the Energy Union's provisions falls within the interest and competences of Member States, and one can only argue in favour of the principles of the new framework when it comes to the elimination of energy supply risks for the most vulnerable countries. Solidarity and trust are two EU pillars on which the Energy Union makes reference to enhance energy security. The main aim is to address "energy insularity" of those Member States that have a limited number of electricity and gas connections with the rest of Europe, and also to reinforce Europe's external energy policy as well as the transparency of agreements of individual Member States with third countries and their compatibility with EU energy security provisions. Integrated governance though is necessary for the Energy Union to ensure that all energy-related actions at European, regional, national and local levels contribute to its objectives, and Regions being important stakeholders have an interest to be involved, as well as significant capacity to contribute to policy shaping, implementation and monitoring within this new framework.

The most relevant elements of the Energy Union for regions though is the link with the policy framework for energy and climate for 2030 that is in place, and with the commitment of the EU to becoming the world leader in renewable energy. The Energy Union communication clearly sets the scene; electricity grids should become fit for renewables and renewable production needs to be supported through *market-based schemes that address market failures, ensure cost effectiveness and avoid overcompensation or distortion*. The fully integrated European energy market requires clear State Aid regulations in the energy sector with the need to overhaul state interventions in the internal market, phase out environmentally harmful subsidies, and also avoid unfair competition conditions between countries in the EU. In other words, the European Commission calls for an entirely market-driven development of renewable energy, with limited public support schemes. However, the Energy Union would have been an opportunity to address also some relevant concerns of peripheral regions. "Energy insularity" –referring to Member States- for instance is highlighted as a priority but there is no clear reference to non-Member States' insular regions, where market failures appear, and where there is often poor connectivity with the mainland, security of supply risks, high energy production costs and limitations to renewable energy exploitation. Especially as far as renewable energy is concerned, peripheral and island regions often face market failures that cannot be addressed by market-based schemes, as suggested by the Communication of the European Commission. In consequence, public support and State Aid in disadvantageous regions is often required to reduce disparities vis-a-vis the level of development and the backwardness of the least favoured regions, as specified for instance in Article 174 of the Lisbon Treaty, in order to ensure equal treatment and achieve "*secure, sustainable, competitive, affordable energy for every European*", as stated in the Energy Union press release.

Energy efficiency is also clearly highlighted and *treated as an energy source so that it can compete on equal terms with generation capacity*. As far as the building sector is concerned, it is reminded that heating and cooling is the largest single source of energy demand in Europe and that the majority of Europe's gas imports are used for these purposes. Apart from improving energy efficiency within the EU, the European Commission considers that relevant globally leading expertise can also be exported to boost jobs and growth in the EU, and thus it will strongly promote the adoption of ambitious energy efficiency goals and targets in international fora. Reference to the transport sector that represents 30% of the final energy consumption in Europe is also made, and a series of priorities is defined for road and rail transport, as well as for electrification of the private car fleet. Maritime transport is not included though; as a first step towards cutting emissions of shipping, which is a large and growing source of the greenhouse gas emissions, the European Commission has proposed that owners of large ships using EU ports should report their verified emissions from 2018. Finally, the Communication states that the EU Emissions Trading System will be reinforced to eventually deliver a meaningful price on carbon emissions and stimulate cost-efficient greenhouse gas emission reductions.

Lastly, it is reminded that EU aims to become a leader in research and innovation, the global hub for developing the next generation of technically advanced and competitive renewable energies. The focus among others is on renewable technologies, storage solutions, smart grid and smart home technology, energy efficient

buildings, clean transport and carbon sequestration. For boosting innovation in Europe, the Regions have identified the maritime industry and maritime economy as their strategic priority sectors to boost innovation and investments, while the European Commission also acknowledges both sectors as two flourishing sectors for growth and employment. Ports, maritime industries, marine renewable energy, etc. have a considerable economic impact on coastal areas, while marine renewable energy will increase energy security and independency from fossil fuels. Therefore, in the Energy Union and notably in its research and innovation component that is linked with new generation renewable energy, marine renewable technologies should have been considered as a big opportunity for enhancing European leadership and boosting growth and jobs.

In general, the transition towards a more secure and sustainable energy system will require major investments in generation, networks and energy efficiency, estimated at some € 200 billion annually in the next decade. For those technologies that are still in a maturing process and thus are not yet commercialized, the EU funds and programmes on Research and Innovation, such as Horizon 2020, should enable the development of innovation that would further support their development. For those technologies that are ready to the market but might still entail some risk, the European Fund for Strategic Investments is expected to provide additional support through guarantees, hence, further facilitating access to finance for projects of European significance, such as in energy networks and infrastructure, renewable energy and energy efficiency.

In the Communication on the Energy Union, the European Commission makes reference to regions to highlight their role in increasing energy efficiency in the buildings sector. According to its proposal, *the European Fund for Strategic Investments provides an opportunity to leverage major investments in renovating buildings and investments in this area can provide great returns in terms of growth and jobs*. This is indicative **for the large potential that regions are considered to have as regards the renovation of housing in their territories**. Other key energy efficiency priorities identified in the Energy Union are the reduction of CO₂ emission standards in private cars, better traffic management in urban areas, promotion of rail transport, electrification of rail and road transport and integration of electric vehicles in urban mobility policies, as well as in the electricity grid, both as energy consumers and potential storage facilities. In the latter, regions can claim a role by incorporating mobility in their energy planning. While the private sector will bear the costs of much of these investments, access to financing will be key. Attracting investments at the scale needed remains a challenge, especially at the local level, mainly due to lack of awareness and expertise in small-scale financing. In the Energy Union communication the Commission commits *to support ways to simplify access to existing financing and offer 'off-the-shelf' financing templates for financial instruments to the European Structural and Investment Funds managing authorities and interested stakeholders, promote new financing schemes based on risk and revenue sharing, develop new financing techniques and support in terms of technical assistance*. In addition, *financial support needs to be combined with technical support to help aggregate small-scale projects into larger programmes, which can drive down transaction costs and attract the private sector at scale*.

The European Investment Bank, the Connecting Europe Facility and financing under the European Structural and Investment Funds provide indeed some means, mainly towards infrastructure projects that are considered of common interest for the EU ([List](#) of Projects of Common Interests - PCI). As it can be seen though few projects in peripheral regions are included in the list of Projects of Common Interests, leaving enough room - in terms of geographical coverage- for relevant projects to be proposed. It is also stated in the Communication that the Commission is meant *to work with Member States and regions to ensure synergies between the different EU funds and to exploit the full potential of Cohesion Policy funding for innovation*. However, the Peripheral and Maritime Regions have some [concerns](#) vis-à-vis a potential orientation change of the Cohesion Funds, so as to be used for purposes other than Territorial Cohesion, as well as vis-à-vis the proposed requirement of financial instruments already in place in order for a project to be eligible under the European Fund for Strategic Investments.

The CPMR General Secretariat will work closely with Energy Working Groups within Geographical Commissions in order to identify and reveal points of interest and opportunities for Regions that derive from the Energy Union Communication, as well as from the subsequent legislative actions that will follow and that are presented in the Appendix.

IV. APPENDIX: EXPECTED RELEVANT LEGISLATIVE ACTIONS AT EU LEVEL

Energy security, solidarity and trust

- The Commission will propose a resilience and diversification package for gas in 2015-2016 by revising the existing security of gas supply Regulation.

- The Commission will prepare a comprehensive strategy for liquid natural gas (LNG) and its storage, and will work with Member States to develop access to alternative gas suppliers
- The Commission will propose a revision of the Decision on Intergovernmental Agreements in 2016 to ensure compatibility with EU legislation before agreements are negotiated, involve the Commission in such negotiations, develop standard contract clauses covering EU rules and make commercial gas supply contracts more transparent.
- The Commission will create a dedicated Energy Infrastructure Forum to discuss progress on major infrastructure projects with Member States, regional cooperation groups and EU institutions. It will meet for the first time in late 2015.
- The Commission will propose legislation on security of supply for electricity in 2016.

A fully integrated European energy market

- The Commission will propose a new European electricity market design in 2015, which will be followed by legislative proposals in 2016.
- The Commission will review the regulatory framework set up by the 3rd Internal Energy Market Package, in particular the functioning of the Agency for the Cooperation of Energy Regulators (ACER) and the European Network of Transmission System Operators for electricity (ENTSOs), in 2015-2016 and will propose appropriate actions to reinforce it
- The Commission will develop guidance on cooperation among its geographical areas and engage actively in cooperation bodies together with Member States and stakeholders
- The Commission will produce biannual reports on energy prices, analyse in depth the role of taxes, levies and subsidies and seek the phasing out of regulated prices below cost.

Territories contributing to moderation of demand

- In 2015 and 2016, the Commission will review all relevant energy efficiency legislation and will propose revisions, where needed, to underpin the 2030 target
- The Commission will develop a 'Smart Financing for Smart Buildings'-initiative to make existing buildings more energy-efficient, facilitating access to existing funding instruments.
- The Commission will propose a strategy to facilitate investment in heating and cooling.
- The Commission will propose a comprehensive road transport package promoting more efficient pricing of infrastructure, the roll-out of intelligent transport solutions and enhancing energy efficiency.

Decarbonisation of the economy

- The Commission will take further action to create the right market conditions for an increased deployment of alternative fuels and to further promote procurement of clean vehicles in road transport. This will be delivered through a mix of national, regional and local measures, supported by the EU.
- The Commission will propose legislation to achieve the greenhouse gas reduction target agreed at the October 2014 European Council both in the Emissions Trading System and in the sectors outside the Emissions Trading System
- The Commission will propose a new Renewable Energy Package in 2016-2017. This will include a new policy for sustainable biomass and biofuels as well as legislation to ensure that the 2030 EU target is met cost-effectively

Research, innovation and competitiveness

- The Commission will propose a European energy R&I approach, comprising an upgraded Strategic Energy Technology Plan and a strategic transport R&I agenda, with a limited number of essential priorities and clear objectives, in 2015-2016.
- The Commission, with the High Representative and Vice President will develop an active agenda to strengthen EU energy cooperation with third countries, including on renewable energy and energy efficiency