

# An Energy Union that creates growth and prosperity for all

## Policy briefing

*“At the heart of the Energy Union should be a focus on the competitiveness of the industries that can help meet our energy and climate change objectives, while creating jobs, driving innovation and growing the economy.”*

The CBI has identified four priorities for EU institutions to focus on in the coming months and years in order to achieve an Energy Union which delivers long-lasting growth and prosperity for all:

- Accelerate the completion of the Internal Energy Market to offer more choice and competitive prices for business and consumers
- Ensure energy security through diversity of supply and improved infrastructure
- Promote energy efficiency and innovation through effective funding and market-led solutions
- Deliver the EU's ambitions in fighting climate change through coordinated governance of the Energy Union and 2030 targets

*The creation of an Energy Union can play a major role in tackling our collective energy and climate challenges, supporting the economic recovery and building a more competitive Europe. Now is the time to translate the Commission's Strategy into concrete results by completing the Internal Energy Market, securing diversity of energy supply and infrastructure, promoting energy efficiency and delivering on our climate change ambitions.*

Since its inception, energy has been a core element of the European Union; as cooperation has increased, so too has the integration of our energy systems. Indeed, 28 Member States working together can tackle our shared challenges such as energy security and climate change more effectively than they can working alone.

Significant progress has been made in many areas such as integrating markets, enhancing cross-border energy flows and promoting competition.<sup>1</sup> However we still have some way to go if we are to reap the full benefits of an integrated energy market in Europe and create the long-term and joined up policy approach that industry needs to deliver investment and innovation. The CBI therefore welcomes the move towards a common Energy Union which drives a competitive, sustainable and secure future for growth.

The Commission's Communication, "A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy", lays the right foundations for a future EU energy and climate policy and its five pillars<sup>2</sup> provide a strong basis to achieve the goal of providing both households and businesses with secure, sustainable, competitive and affordable energy.

For British business, the Energy Union must firstly be underpinned by Member States' right to determine their energy mix in order to reflect the differences in their own national circumstances. In the UK, this means a diverse and market-led energy mix, with nuclear, gas and renewable energy all having important roles to play.

At the heart of the Energy Union should also be a focus on the competitiveness of the industries that can help meet our energy and climate change objectives, while creating jobs, driving innovation and growing the economy.

The challenge now is for the Commission to translate its Strategy into concrete and long-term actions, driving growth while moving towards a low-carbon economy.

**Accelerate the completion of the Internal Energy Market to offer greater choice and competitive prices for business and consumers**

A competitive energy market is vital to ensure better choice, greater reliability and affordable prices for consumers across Europe, therefore completing the Internal Energy Market must be a priority for the Commission. While significant progress has been made in areas such as integrating markets, enhancing cross-border energy flows and promoting competition, there is still a long way to go if we are to reap the full benefits of a single energy market. Indeed, while much of the necessary legislation to deliver the Internal Energy Market is in place, implementation has been slow. The Commission is right in saying that “there is no point in developing new policies and approaches on weak foundations”<sup>2</sup>, therefore its priority should be the implementation of key EU legislation, such as the 3<sup>rd</sup> Energy Package, before introducing new measures.

Fundamental to the completion of the internal market are effective market design and cross border regulations that support openness, competition and investment – putting the needs of business and consumers at its heart. The Agency for the Cooperation of Energy Regulators (ACER) plays an important role in coordinating the efforts of national regulators through the development of EU-wide network and market rules, however, as the Energy Union Strategy notes, it will need a wider mandate in order to oversee the development of the Internal Energy Market. Importantly, any growth in ACER’s remit must be matched by the appropriate resource. Furthermore, it is important that ACER’s role remains as market coordinator, and does not replace the role of domestic regulators. Increasing cooperation at a regional level is a logical step towards further development of the EU-wide energy market, and ACER should focus its efforts here.

As well as effective market regulation, further development of network regulation is needed to ensure the European system operates in a more integrated fashion. European Networks of Transmission System Operators for Electricity and Gas (ENTSO-E/G) have a vital role to play in developing a more integrated European grid and improving cross-border energy flows – indeed, many Transmission System Operators (TSOs) already participate voluntarily in Regional Operating Centres. It is important that these centres look towards the long-term goal of a single market, with further steps

taken to allow seamless cross-border energy trading and ensure that common network rules are put in place – in particular through the timely adoption of network codes and further progress on market coupling.

Capacity mechanisms also have a role to play to ensure our long-term energy security, especially as the share of intermittent plant on the system grows, and it is important that these are compatible with the Internal Energy Market. Member States should be free to develop capacity mechanisms where appropriate – as has been done in the UK – but these should allow a level playing field, cross-border participation and must not distort the wider EU market.

**Recommendations:**

- The Commission should first and foremost ensure the implementation of key EU legislation, such as the 3<sup>rd</sup> Energy Package, before introducing new measures
- ACER should be appropriately resourced to oversee the development of the Internal Energy Market but should stay within the remit of coordinating markets, focusing on regional cooperation between its member regulators
- The Commission should ensure a level playing field for capacity mechanisms that do not distort the wider EU market

**Ensure energy security through diversity of supply and improved infrastructure**

With energy security having risen up the political agenda, pursuing a more diverse range of gas sources, as well as investing in a wider range of technologies, is essential to Europe’s long-term security and economic well-being.

To ensure a diverse range of gas sources for the EU, it is important that we maintain and build upon strong long-term relationships with our neighbours and strategic allies. The Energy Union Strategy rightly calls for more efforts to expand supplies through pipelines in southern Europe from central Asian markets, while the Transatlantic Trade and Investment Partnership (TTIP) negotiations currently being discussed between the US and the EU should also help by lifting export restrictions to allow US Liquefied Natural Gas (LNG) supplies to reach the global market.

However, while there is a need for greater cooperation between Member States to play a stronger and more influential role in the global gas

market, the idea of collective purchasing of gas put forward by the Commission should not be pursued, as it is not compatible with a competitive market and would undermine the internal gas market function.

The Energy Union Strategy rightly focuses on diversifying imports and import capacity, but it is also critical that we improve the internal infrastructure to support the movement of energy within Europe. Greater and improved interconnections will be key to getting the Energy Union to work, allowing energy to flow freely across the EU and enabling a more secure and cost-effective market. However, none of this can be achieved without addressing the issue of public acceptance for energy infrastructure projects. To do so, EU policy-makers should remain focused on the importance and benefits of infrastructure for all consumers. For example, the UK's National Grid estimates that each 1GW of interconnection could reduce Britain's wholesale power prices by 1-2%.<sup>3</sup>

More broadly, a diverse energy mix is crucial for a secure, affordable and low-carbon energy supply in the future, and Member States must retain their ability to decide the right mix for their national circumstances. For the UK, this includes nuclear, renewables and gas, with the exploration of unconventional sources such as shale.

Diversity of supply should also include the deployment of newer technologies, such as Carbon Capture and Storage (CCS), where the UK has made steady progress. With our global competitors driving ahead, the EU cannot afford to fall behind in the low-carbon technology race, and support for CCS should be a priority for European innovation through funds such as NER400 and Horizon 2020.

Finally, the infrastructure funding streams that will be central to supporting and leveraging private sector investment must be simplified, streamlined and complementary. Numerous schemes, such as the European Fund for Strategic Investments (EFSI) and Connecting Europe Facility (CEF), have not delivered as expected due to competing criteria and complex application processes. Furthermore, it is essential that these do not crowd out private investment from commercially viable projects. Welcome initiatives such as Projects of Common Interest (PCIs) must have more streamlined administrative and regulatory procedures, as well as timely implementation.

### Recommendations

- The Energy Union should encourage diversity of internal and external energy sources, with

Member States retaining control over their own energy mix

- The idea of collective purchasing of gas put forward by the Commission should not be pursued
- The EU should play a stronger hand in promoting the importance and benefits of energy infrastructure for all consumers
- The Commission should encourage continued investment in energy innovation, including the deployment of CCS technology
- Infrastructure funding streams need to be simplified, streamlined and complementary

### Promote energy efficiency and innovation through effective funding and market-led solutions

Energy efficiency is the most straightforward and cost-effective way for the EU to improve its energy security, reduce costs and cut emissions, and its prominence within the Energy Union Strategy is welcome.

While a great deal of energy efficiency legislation has been passed in Europe, its implementation across Member States has been patchy, and further efforts are needed. With the Energy Efficiency Directive due to be reviewed in 2016, it is imperative that the existing legislation is fully implemented before new rules are considered.

In addition, buildings and transport have rightly been identified in the Energy Union Strategy as key sectors that can rapidly improve energy efficiency, with considerable potential for consumers to take control of their energy futures through technologies like smart meters. The Strategy highlights in particular the role that the electrification of transport will play in cutting emissions. However, it is important to carefully consider the impact that this, and other measures, could have on electricity demand, and how this will be managed. Other technologies that help reduce overall emissions should also be considered alongside electrification.

The Energy Union must also align itself with the wider EU research, innovation and development strategies to deliver the necessary improvements in energy efficiency and other low-carbon technologies. The European Investment Bank could be well placed to act as the primary contact for managing applications for funding, rather than the complex processes with multiple bodies that are involved currently, especially

in situations where more than one Member State may be involved. Business' role as both investor and innovator can then ensure the EU is ready to exploit the potential of a low-carbon and efficient economy. The Commission should thus develop collaboration with businesses and consumers to foster low-carbon innovation.

### Recommendations

- Existing energy efficiency legislation must be fully implemented before any new rules are considered
- The Commission should work with Member States, businesses and consumers to ensure effective support for energy efficiency and other low-carbon innovation

### Deliver the EU's ambitions in fighting climate change through coordinated governance of the Energy Union and 2030 targets

An area which has seen considerable success in collective action has been Europe's fight against climate change. The Energy Union governance must therefore support the implementation of our 2030 energy and climate framework.

In October 2014, EU leaders agreed on one robust binding target of reducing greenhouse gas (GHG) emissions by at least 40% by 2030, as well as subsidiary targets of at least 27% renewables deployment and 27% energy efficiency improvement. The binding overarching emissions reduction target is the right goal to meet our climate change challenges and must therefore not be undermined by the implementation of the other two EU-level targets, or by any new or reviewed legislation.

Of course, targets are only as good as the policies that underpin them, and British business believes that the EU Emissions Trading System (ETS) should remain as the main vehicle to tackle climate change in the most cost-effective manner. Following the recent agreement of the Market Stability Reserve to

enable the scheme to withstand future economic developments, the forthcoming reform of the EU ETS should be holistic and long-lasting, ensuring it works for all sectors of the economy. Competitiveness remains a real concern for many of the energy-intensive industries within the scheme, with some exposed to the risk of carbon leakage. Greater consideration should therefore be given to the support required to help industry cut emissions, whilst remaining competitive and viable within the EU and on the global stage.

Efforts to tackle emissions will be the backbone of the EU's commitment for an ambitious climate deal in Paris later this year. Not only would a strong deal achieve the emissions reductions necessary to prevent dangerous climate change, but also support the competitiveness of British and European business by making global carbon policies more comparable. The UK, through actions like the Climate Change Act, and the EU through its binding emissions reduction target, have demonstrated long-term ambition on tackling climate change. Every effort must be made to secure a strong and durable deal in Paris in order to put us on the path towards a level playing field and grasp the global low-carbon growth opportunity.

### Recommendations

- The Energy Union governance should support the implementation of the 2030 energy and climate framework, ensuring our GHG reduction target is not undermined by the implementation of others EU-level energy targets, nor by any new or supporting legislation
- The reform of the EU ETS must be long-term and holistic to support investment in low-carbon technology, while ensuring growth and competitiveness
- The EU should assert its leadership in fighting climate change and press for a strong climate deal

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#### Footnotes

<sup>1</sup> [http://ec.europa.eu/energy/gas\\_electricity/doc/2014\\_iem\\_communication.pdf](http://ec.europa.eu/energy/gas_electricity/doc/2014_iem_communication.pdf)

<sup>2</sup> (i) Energy security, solidarity and trust; (ii) A fully integrated European energy market; (iii) Energy efficiency contributing to moderation of demand; (iv) Decarbonising the economy, and (v) Research Innovation and Competitiveness.

<sup>3</sup> Communication "A Framework for a Resilient Energy Union with a Forward-Looking Climate Change Policy", 25th February 2015, page 9.

<sup>4</sup> <http://www2.nationalgrid.com/Mediacentral/UK-Press-releases/2014/%C2%A31-billion-could-be-saved-from-electricity-costs-if-UK-doubles-its-interconnector-capacity-by-2020,-says-new-analysis-from-National-Grid>

# *Priorities for EU institutions to deliver an Energy Union that creates growth and prosperity for all:*

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- The Commission should encourage continued investment in energy innovation, including the deployment of CCS technology

- Infrastructure funding streams need to be simplified, streamlined and complementary

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- The reform of the EU ETS must be long-term and holistic to support investment in low-carbon technology, while ensuring growth and competitiveness
- The EU should assert its leadership in fighting climate change and press for a strong climate deal

For further information or a copy in large text format, please contact:

Elsa Venturini, senior policy adviser, CBI

T: +32 (0)2 286 11 39

E: [elsa.venturini@cbi.org.uk](mailto:elsa.venturini@cbi.org.uk)

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