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PURE ENERGY



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Yet it is the intention of the EU to combine the efforts of all countries towards a main objective, energy policies are a main responsibility of each Member State. An agreed EU energy governance framework shall reinforce the relationships between the EU and the Member States, seeking to meet the energy policy objectives of the EU on the one hand, and fulfil national aims on the other.

2030 Energy Strategy

EU countries have agreed on a new 2030 Framework for climate and energy, including EU-wide targets and policy objectives for the period between 2020 and 2030. These targets aim to help the EU achieve a more competitive, secure and sustainable energy system and to meet its long-term 2050 greenhouse gas reductions target.

The strategy sends a strong signal to the market, encouraging private investment in new pipelines, electricity networks, and low-carbon technology.

The package sets three key targets:

- a 40% cut in greenhouse gas emissions compared to 1990 levels
- at least a 27% share of renewable energy consumption
- at least 27% energy savings compared with the business-as-usual scenario

To meet the targets, the European Commission has proposed a reformed EU emissions trading scheme, new indicators for the competitiveness and security of the energy system and first ideas on a new governance system based on national plans for competitive, secure, and sustainable energy.

European Energy Union

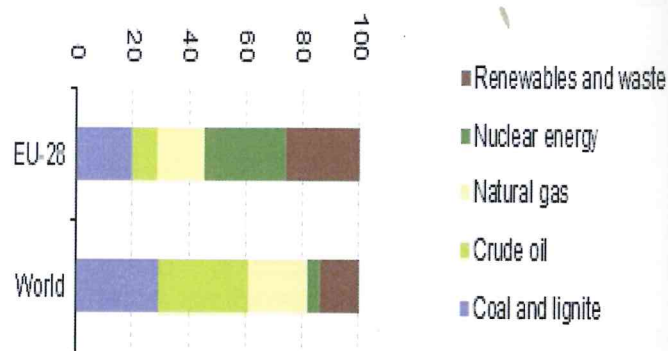
The Commission presented last February its energy security package with necessary proposals to equip the EU for global energy transition as well as to be prepared for possible energy supply interruptions. The measures proposed include moderating energy demand, increasing energy production in Europe (including that from renewables sources), further developing an effective and fully integrated internal energy market, as well as diversification of energy sources, suppliers and routes. Further, the proposals aim to bring more transparency to the energy market in the EU and to promote solidarity between the Member States.

Production of Energy in Europe

Primary production of energy is any extraction of energy products in a useable form from natural sources. In the EU, primary production of energy

accounted for 795 million tonnes in 2012 while worldwide production reached 13.46 billion tonnes in 2012, with Russia, the United States and China recording higher production than the EU.

By sector, the EU has a well-distributed production of energy. Yet renewable energies are one key item in the new European Energy Strategy, nuclear power is the main energy source, generating almost 30% of the electricity produced in the EU. Furthermore, despite aiming for a decarbonized energy in the future, coal and lignite account yet for the third biggest energy source, showing there is still a long way to go to reach the objectives on clean energy.



Energy Dependency in the EU

The EU has energy dependency ratios have grown in the last decade, reaching a total of a 50 % in 2012, indicating that more than half of its gross inland energy consumption was met by net imports. In 2013 in Europe, the highest need was for petroleum products, of which 94.1% were imported. For natural gas, 65.3% of gross inland consumption in 2013 was covered by imports. The production of solid fuels in the EU has been in decline over the last two decades. In 2013, 44.2 % of gross inland consumption of solid fuels was imported.

Sources:

Eurostat. *EU energy trends.* June 2015

Eurostat. *EU in the world 2015.* May 2016

THE ENERGY UNION AND THE GAS PIPELINE DEBATE

1. The Energy Union is a win-win project for Member States, utilities and citizens as: politically, it proposes, for the first time, a cohesive and consistent framework to achieve five mutually-reinforcing targets and offers greater accountability and transparency - the State of the Energy Union Report monitors the process -. Secondly, it strengthens the role of the supranational European institutions (Commission, Parliament, Regulatory Agency), as opposed to the intergovernmental ones. Economically, through the IEM and the opening of national markets, it has already increased citizens' welfare, efficiency gains, and overall system resiliency. Acer has calculated the efficiency gains arising from regional electricity market trades as opposed to isolated national markets; retail markets are more dynamic, offering citizens more choices; gas prices are converging in the EU gas



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market hubs and electricity wholesale prices are decreasing. Indeed, an open issue remains retail electricity prices, burdened by national energy taxes and levies.

2. Today it is an irreversible process as:

a set of European rules and standards have already created a solid regulatory foundation for a single energy market (the Energy Union software) and connecting infrastructure have been built and more is planned (the Energy Union hardware), though finance is a critical issue and being a long term process it will take time.

3. The gas pipeline debate
The building of a new gas pipeline Nord Stream 2, which would double the capacity of direct gas transport from Russia to Germany, apparently eluded the same EU 3rd Energy Package rules, which had, just a few months earlier, stopped the South Stream project. The reactions were multifaceted, and even questioned the value and feasibility of the Energy Union project.

Indeed, the pipeline represents one of the many pieces of the puzzle, to be considered from both, the political and economic viewpoint. It will neither indefinitely undermine



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the Energy Union project nor will it enhance EU security of supply Policy: EU and Russia obviously share complementary energy needs; however, bilateral agreements weaken the Energy Union strategy and the political/economic sustainability of EU strategy of balancing Northern and Southern Regions. The offshore pipeline system stretching from Russia to Germany will have a capacity to transport 55 billion cubic metres of natural gas a year to Europe, or about half of Gazprom exports to Europe. It represents an alternative to the "Brotherhood" pipeline (from Ukraine to the Slovakia border) and, especially, in a time of a demand-driven market, is in competition with alternative gas routes of the Southern Corridor and alternative gas sources. How this project fits in with the Energy Union strategy and the desire to reduce energy dependency remains uncertain.

Economics: the EU external dependency will probably increase in the medium-term (2016-2020);



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however, given the expected global gas (and oil) market oversupply, Russia and USA might engage in a gas price war to secure larger market shares in the EU. This could occur as early as 2016, when the first LNG orders are shipped to Europe, after an unexpected leveling of Pacific and European gas market prices. For the first time, after decades, a gas demand driven market will prevail – EU, as an integrated market, may explore choices which

would not have the same impact if separately made by Member States. They relate to LNG gas from Australia, US, Mediterranean, Africa, versus pipelines gas from Russia or Southern/East Regions.

Would Nord Stream 2 pipeline really offer a value added? In spite of the fact that the Commission and Member States are still divided on the feasibility of this pipeline irrespective of the EU 3d Package rules and that the capacity of Nord Stream 1 in 2015 was only half used, an open season would test the market sentiment.

To conclude, Member States would benefit by jointly betting on a green economy and technological revolution, rather than competing for external fossil fuels and EU will have much to gain in terms of economic growth. There is, however, a crucial question: while the regulatory foundations of the Energy Union are in progress and much of them have been implemented, yet, the energy policy strategies concerning the choice of fuels and imports are within the scope of national decisions, and thus far not coordinated. Will Member States take a political leap forward for a common EU energy policy? In this framework, dedicated EU budget for energy investments is instrumental.



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