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POLICY brief

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Toward a Smart EU Energy Policy: Rationale and 22 Recommendations

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Highlights

- In the spring of 2007, the European Council agreed on a policy vision with three components: the green component (to promote a sustainable energy economy), the market component (to enhance efficiency and competition) and the security of supply component (to secure the EU's energy supply).
- With regard to these three components, distinct implementing paths and action lines were developed. The existence of separate implementing paths entails some coordination issues. Coordition is necessary here to guarantee that the three action lines are integrated into a consistent EU Energy Policy.
- EU Energy policy needs to get smarter and align the incentives deriving from the three components to produce an integrated vision that moves beyond 2020. 22 policy recommendations can then be formulated for the most relevant energy-related issues which the EU is facing nowadays.

[1] Glachant J.M., Grant R., Hafner M. and de Jong J. (2010): "Toward a Smart EU Energy Policy: Rationale and 22 Reommendations." http://hdl.handle.net/1814/14181

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Background

The EU is in desperate need of an Energy Policy. But first and foremost: do we really have to start from scratch? Or does this policy already exist?
In the spring of 2007, the European Council agreed on a policy vision with three components: the **green component** (to promote a sustainable energy economy), the **market component** (to enhance efficiency and competition) and the **security of supply component** (to secure the EU's energy supply). It gave us three "mantras" as a basis for a variety of policy and regulatory proposals and actions: Kyoto, Lisbon and Moscow (Box 1).

Box 1 – The three "mantras" of the EU Energy Policy

Kyoto, *the green issue*: In the late 1980's energy related environmental issues became a truly European domain and Kyoto was immediately adopted by the EU. The EU's leadership in this respect brought to the translation of Kyoto into a market based mechanism, the Emission Trading Scheme (ETS). Moreover, Kyoto is at the base of the "triple twenties" political targets for 2020.

Lisbon, *the market issue*: Lisbon was born in 1986 when the European Community enacted its project to create a Common Market by 1992. The goal was to have market based economies with no internal barriers to trade, and a centralised monitoring system to review progress and to solve internal discrepancies. Energy markets liberalisation gained momentum with three successive packages: in 1996, 2003 and 2009, respectively.

Moscow, *the security of supply issue*: Russian gas supplies played an increasingly important role for the EU since the early 1980's. Starting before the first oil crisis in the 70', the Commission was willing to define an external Community policy for energy supply. Nevertheless, this objective has never been achieved, as several energy crises (such as the 2006 and 2008 Ukrainian gas crisis) showed.

Separated action lines

What we call "EU energy policy" is basically a basket of a number of policies linked to energy issues. **Distinct implementing paths** and action lines were developed after the 2007 European council: the green component was mainly dealt with by Green Package; the market component by the 3rd Energy market package; while the security of supply component was addressed by the 2nd Strategic Energy review and gas new regulation.

Each of these action line is facing several challenges.

Kyoto: The CO2 market needs to be tightened and harmonised across the EU to be effective. This calls for a strong and centrally regulated EC role, including effective monitoring and a centralised auctioning process. Further calls for a carbon tax or even emission performance standards are adding to the debate. On the road towards 2050 strong innovation push and pull programmes are necessary, requiring not only massive investments but also more stable and effective regulatory regimes as well as a European level playing field for technology deployment.

Lisbon: By definition, a competitive energy market requires pro-competitive regulation and pro-competitive industry structures. Which are not so easy to achieve at EU-level, though. On the one side, National Regulatory Authorities have a national focus that does not always allow looking at cross-border issues in the wider EU interest, while, on the other side, the EU Directives and detailed regulation, including the most concrete actions for crossing borders, are still submitted to the willingness of the Member States to cooperate. Finally, industry restructuring can only take place in the context of the EU's Competition Policy when mergers and acquisitions are on the table or when competition cases are at stake ("smoking guns").

Moscow: EU external SoS policy has no infrastructure development plan and no energy long term contracting framework to make deals with foreigners. The competence European Commission has on external trade (see our "open sky" policy with the USA) has not produced yet any common frame for energy external trade. We still lack concrete means and instruments to put the EU external energy policy into practice.

The existence of these separate implementing paths entails some coordination issues. Coordination is necessary here to guarantee that the three action lines are integrated into a consistent EU Energy Policy. To what extent these three action lines are coordinated? Are there conflicting relationships among the three separated action lines?

The figure in Box 2 illustrates how coordination issues may lead to questions about the consistency of the EU Energy Policy.

Policy recommendations

The three components of the EU energy policy influence each other leading to significant policy trade-offs and calling for greater coordination.
Generally speaking, the EU Energy policy needs to get smarter and align the incentives deriving from the three components to produce an **integrated vision that moves beyond 2020**. 22 policy recommendations can then be formulated for the most relevant energy-related issues which the EU is facing nowadays: governance, energy efficiency, decarbonisation, infrastructures, single market and the external dimension.

General

1. Enhance internal policy coordination and consistency between the decarbonisation process, the internal market and the external supply demand
2. Develop a comprehensive overall Energy Market monitoring system in cooperation with the IEA
3. Develop a systematic review process for supply security standards

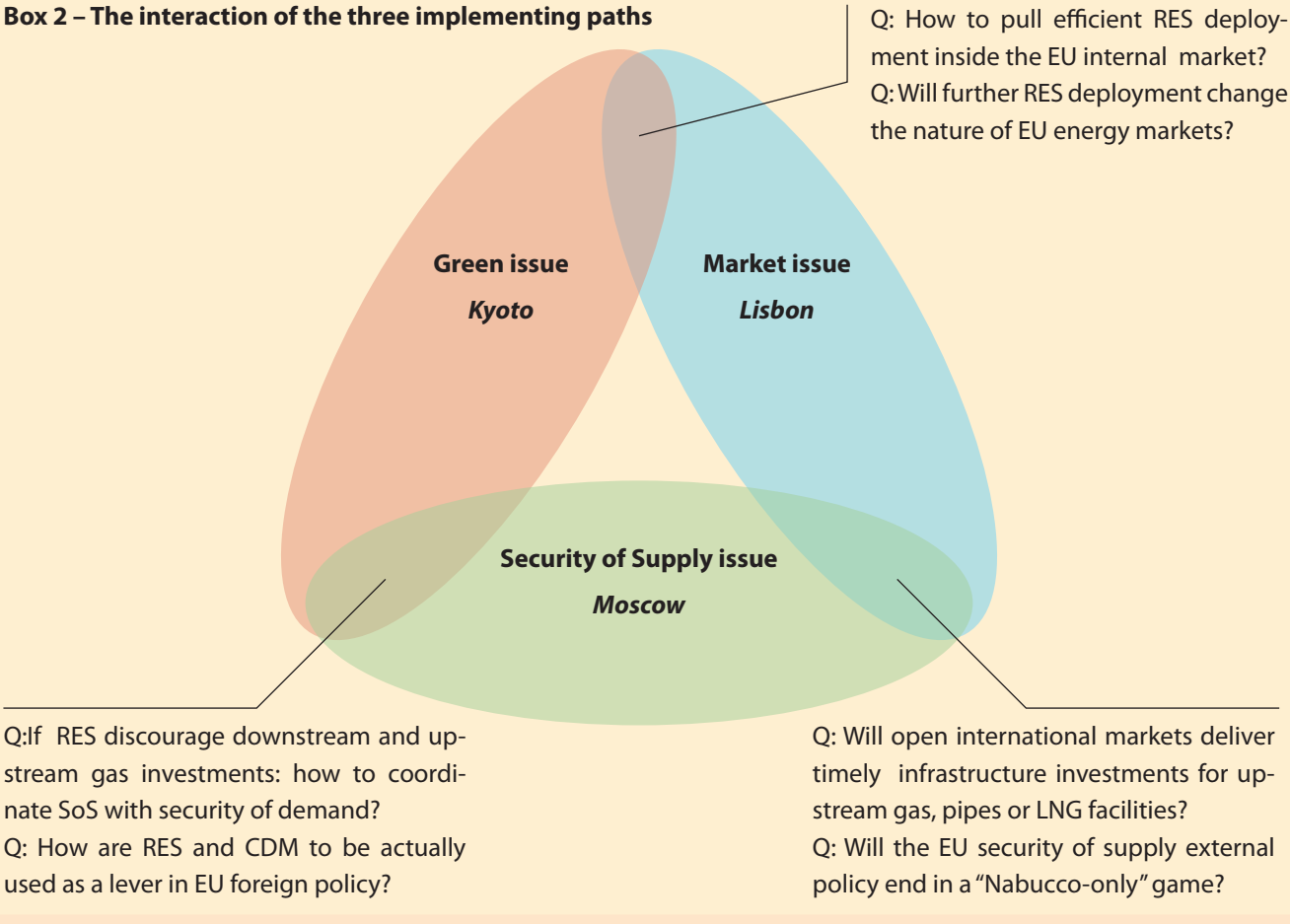
Governance

4. Make adequate use of the new legal basis (directives and regulations plus Lisbon treaty) for comprehensive and integrated EU energy policymaking
5. Allow willing Member States to carry out regional European energy policy making and initiatives, while still preserving the overall EU consistency

Energy efficiency

6. Continue EU Action Plans and make them binding whenever effective
7. Consider the development of white certificate market models at regional to EU-levels
8. Consider the need for an EU policy approach to the deployment of smart metering and other demand side management measures for gas and electricity

Box 2 – The interaction of the three implementing paths



9. Develop a coherent strategy and vision for the transportation sector

Decarbonisation

10. Strengthen the effectiveness of carbon emission mitigation mechanisms
11. C reate a level playing field for all relevant low or zero carbon technology options for power generation
12. Develop a more pro-active EU-role with regard to the particularities of nuclear energy in the fuel mix
13. Develop a view on the EU fuel mix

Infrastructures

14. P roperly regulate key internal cross border infrastructures (gas and electricity) and create incentives for new investment
15. Develop a clear vision and road map for large-scale infrastructure expansion to accommodate large RES generation, coupled with a further expansion of demand side management comprehending smart metering and smart grid devices

Single-market

16. C oordinate regional market integration and develop an effective EU mechanism to ensure coherency and consistency; monitor the P Xs' consolidation in a single pan-European trade platform
17. Be more explicit and robust on the agenda, tasks and resources of the new Agency for the C ooperation of Energy Regulators (ACER)

External dimension

18. Develop a consistent vision vis-à-vis external energy suppliers
19. Be smart with Russia
20. Be smart on single voices inside the European C ouncil as inside the European Commission
21. Take care of external gas supplies both at regional and EU levels
22. Seek global gas and coal energy dialogues in the G20 style such as with US, Canada, Brazil, South Africa, Australia, China, and so on.