



**POSITION PAPER**

# **TOWARDS AN ENERGY UNION**

*A SUSTAINABLE EUROPE*

*An ambitious vision for the Energy Union:  
Our priorities*

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## INTRODUCTION

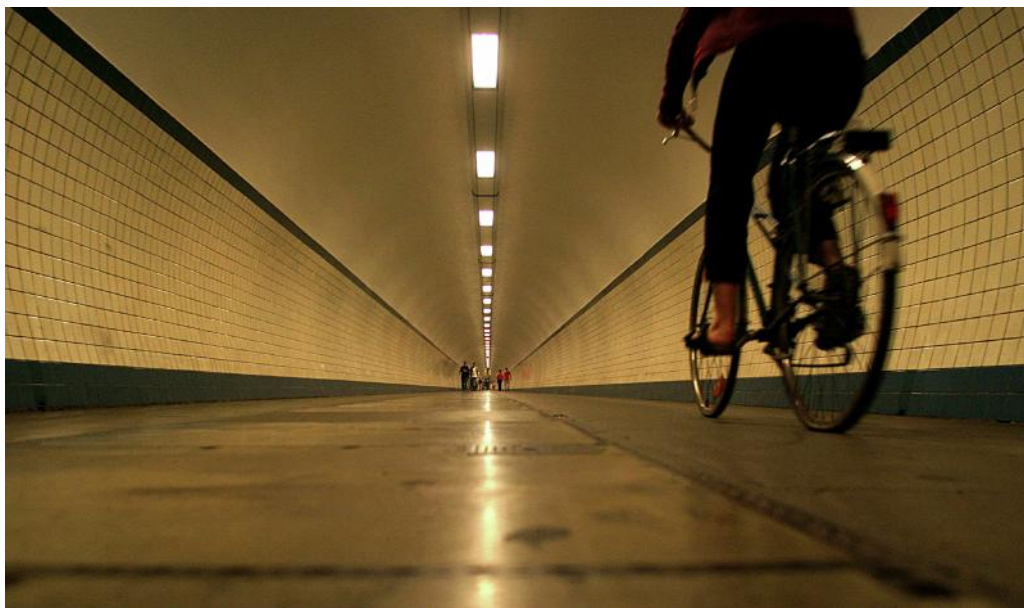
The idea of an 'Energy Union' is high on the European political agenda. In 2010 the *Notre Europe* think tank, Jacques Delors and the Parliament president Jerzy Buzek proposed a 'European Energy Community'. This idea was subsequently endorsed by Martin Schulz in 2012 during his first term as Parliament president. More recently Jean-Claude Juncker made an Energy Union one of the five priorities for his candidacy for Commission President and the European Council conclusions of its June 2014 meeting also endorsed the idea of an Energy Union, backed up by French President François Hollande. The new Juncker Commission has a leading Socialist Vice-President, Maroš Šefčovič, with specific responsibility for Energy Union - meaning that our group should move quickly to define our priorities.

## 1 WHY AN ENERGY UNION

The most urgent and far-reaching challenges faced by the European Union and its Member States include:

1. the urgent need for a transition to a sustainable, decarbonised economy based on renewable sources of energy, in line with the EU's goal to reduce GHG emissions by up to 95% by 2050. Energy efficiency, renewables and smart, modern infrastructure should form the backbone on the energy union.
2. the need to guarantee secure, stable and affordable energy supply benefitting European industry and consumers, as well as putting an end to energy poverty.
3. security of energy supply including independence from expensive imports (€420 billion per year) from dominant and increasingly unreliable third country suppliers.
4. a fully connected internal energy market.
5. creating new high quality jobs and developing new export markets through further investments in research, development and innovation, supporting and enabling our SMEs and improving the EU's industrial competitiveness to achieve the 20% industrialisation target.
6. The last five years have seen progress on all these issues severely neglected due to lack of vision, ambition and commitment from Member States and the outgoing Commission. While it is clear that in the long-term we need more and better tools available at European level, for the next five years we should focus on stepping up our actions within the confines of the existing treaty framework,

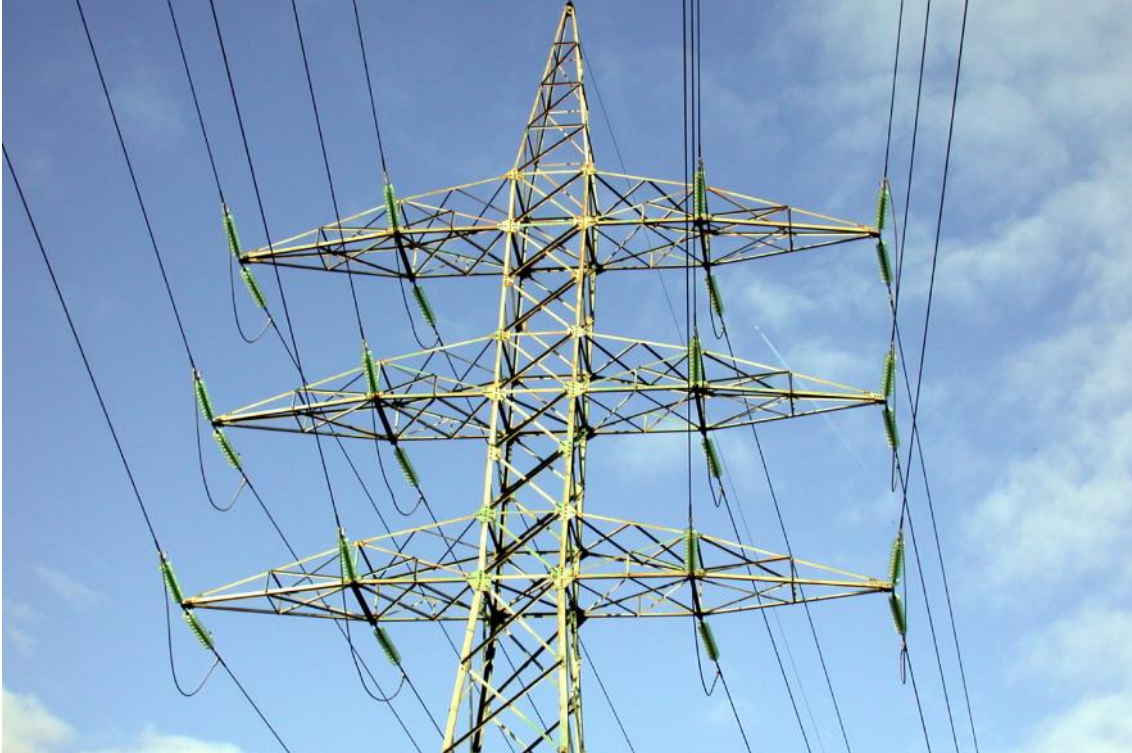
developing innovative and ambitious policies and working methods to reach our goals. The energy union must be implemented in a transparent and democratic manner making full use of the ordinary legislative procedure and we would consider any attempt to circumvent this as undemocratic and contrary to the Treaties. As Member States' energy policies become ever more intertwined both politically and physically, and decisions made in one Member state can severely influence the energy situation in another, a higher level of information exchange, coordination and policy-making is required at European level. Therefore an ambitious and effective governance structure needs to be set up.



## 2 GOALS AND AMBITIONS OF AN ENERGY UNION

As the main progressive force in Europe, Socialists and Democrats are convinced that the energy union should be about a new energy model for Europe, bringing together the different strands of energy policy in order to accelerate the transition from fossil fuel sources with high carbon emissions towards a sustainable, forward-looking energy system. Prioritising energy efficiency and renewable energy will reduce our overall energy needs and imports, thus vastly reducing our import bill, in turn enabling new investments to be geared towards smart infrastructure, development of community-based micro-generation, maritime development and demand response mechanisms which take full advantage of new digital technologies, in order to change consumer behaviour and move towards a circular economy. Digitalisation will play an important role in the energy union and in reducing emissions and Europe should be at the

forefront in developing new innovative solutions in order to make the shift from a disposable economy to a circular one.



The energy transition must be a just one. As Socialists and Democrats, we must ensure that the social aspect becomes a deep-rooted component of the energy union, including enhanced social dialogue and policies to support the workforce in energy and related industrial sectors, alongside strong consumer protection measures with a particular focus on the needs of the most vulnerable and a declaration of war on energy poverty.

Such an approach should also form an integral part of our research, development and innovation policy, as well as our industrial strategy, creating sustainable progress and high quality jobs, providing industry and investors with much-needed certainty over Europe's direction of travel. In the medium to long-term we need to ensure a competitive, stable supply of energy, which fully internalises the external costs of all energy sources to ensure fair competition, ending once and for all the myth of renewable energy being the most expensive option. In the short-term we should pay special attention to the competitiveness of Europe's energy intensive industries and ensure proportionate measures to create a level playing field are in place.

Finally, a well-functioning and completed internal energy market is not a goal in itself, but rather a framework which should enable us to achieve our objectives. The third energy package should be implemented without delay and its revision in a more social and just way should be envisaged.

### 3 KEY ELEMENTS OF A NEW ENERGY UNION FOR SOCIALISTS & DEMOCRATS

#### 3.1 Sustainable transition

The energy union should have sustainable progress as its number one priority and be based on a clear political commitment to prioritise renewable energies and energy efficiency, making Europe the world leader in these fields. The recently agreed 2030 climate and energy framework is disappointingly weak and its non-binding nature means it is unlikely to be met or taken seriously by many Member States. Furthermore it is inconsistent with the EU's agreed goal to reduce GHG emissions by up to 95% by 2050. The S&D Group believes that the targets for energy efficiency and renewable energies should be significantly revised upwards and made binding on Member States regardless of progress in international climate change talks. In the meantime we call for revisions of the energy efficiency directive and energy performance of buildings directives because the cleanest and most-affordable energy is that which is not used. Energy efficiency improvements pay for themselves, reducing both energy bills and dependence on imports. There is the potential to create two million jobs as a result of energy efficiency by 2020, in particular through the huge potential in the building sector, which accounts for 40% of total EU energy demand. The funds available for energy efficiency projects must be drastically revised upwards. On the production side, it is paramount that we move towards an energy landscape that is nearly fully based on renewables by 2050. To achieve this, all types of sustainable production should be harnessed, from large-scale to micro scale.

#### Actions:

- ✓ Revision of the 2030 climate and energy package to increase the ambition of the EE target (to 40%) and RES target (to 45%) and implement them through binding national targets
- ✓ Update the energy efficiency directive and renewable energy directives
- ✓ Revise the energy performance of buildings directive



### 3.2 Smart Infrastructure

What is needed is an infrastructure union, encompassing a massive investment programme to modernise and upgrade our energy networks. A new mandatory target for interconnections between Member States should be agreed in order to avoid energy bottlenecks and the creation of a European supergrid should be supported to ensure efficient delivery of renewable sources to the major centres of consumption. The roll out of smart grids is key to delivering more efficiency through demand-response management, avoiding over-capacity and minimising the need for expensive storage solutions. To do all this the current funding schemes must be revised, refocused and made more efficient. Aside from that, additional public money should be injected to kick start selected infrastructure projects of high importance and leverage private investments. It is important to prioritise support for only those infrastructure projects which really offer European added value, on both transmission and distribution level, and ensure security of supply in the most affordable and sustainable way, thus making optimal use of public and private investments and helping to avoid unnecessary capacity markets, where demand response measures may offer a better alternative. These investments need to be made today as postponing them will only cost more money in the end and will place the burden on future generations. For every euro not spent today in the power sector, four times as much will be needed after 2020 just to offset the additional emissions generated.

**Actions:**

- ✓ Establish a new mandatory target for electricity interconnections between Member States
- ✓ Increase the support available for interconnections as part of the Connecting Europe Facility
- ✓ Update the list of key infrastructural projects (PCI) that need to be completed to secure a smart trans-European network and make sure the necessary investments are in place

### 3.3 People at centre stage.

A revision of the third energy package should be undertaken in order to strengthen consumer rights, ensuring that decreased wholesale prices are properly reflected in retail prices, allowing consumers to benefit from the lowest energy tariffs available, have more control over their energy use through harnessing the full potential of new digital technologies, and fully benefit from micro-generation including unimpeded access to the grid. Tackling the scourge of energy poverty should be an urgent priority

and besides social policy measures, we need to develop the European angle through coordinated Member State national action plans, scoreboards, exchange of best practices and a horizontal approach to energy affordability whereby all new policy proposals in the energy field are assessed for how they could help vulnerable consumers. As part of the revision of the Energy Efficiency and the Energy Performance of Buildings directives, energy poverty should be elevated to priority status and measures should focus on the most inefficient properties occupied by low-income households, be they tenants or owners. For example, social housing should be prioritised when it comes to energy-efficient renovation of buildings.

As Socialists and Democrats, we should pay particular attention to the impact on employment of the energy transition. For example, savings from public budgets arising from implementing the unanimous decisions already taken by the G20 and European Council to phase out harmful fossil fuel subsidies should contribute to the necessary redeployment, retraining and reskilling of the workforce.

**Actions:**

- ✓ Revision of the third energy package to strengthen consumer rights and transparency, ensuring lower wholesale prices mean lower retail prices and that all consumers are automatically placed on the best possible tariff.
- ✓ A specific Commission communication on energy poverty in Europe accompanied by an action plan including a definition of energy poverty and development of national scoreboards for energy poverty.
- ✓ Revise the EED and EPBD directives to focus on renovation of properties occupied by low-income households (both tenants and owners).

### 3.4 A level playing field

It can no longer be acceptable for taxpayers' money to be spent on traditional energy sources which have long since been competitive, be it in the form of grants, subsidies or other assistance. Notwithstanding the potential role for CCS to assist in the decarbonisation of energy-intensive industry, further support should mainly come from the private sector, as despite large investments to date, this technology has yet to prove its effectiveness. Furthermore, a long term perspective is crucial, as decisions taken now, for example on new coal power stations, will have consequences for decades to come and create regrettable lock-in effects. In order to steer new investments towards our new energy model, a high carbon price is essential and the EU ETS must be substantially overhauled to guarantee a long-term clear investment



signal for private investors. The long-term aim should be a global carbon price in order to ensure a global level playing field but until such time it is vital our energy transition does not come at the expense of our energy-intensive industries. The Commission should further examine how to create a level-playing field between European and non-European producers and all options should be on the table including the feasibility of carbon border-adjustment mechanisms or emission standards.

### 3.5 A new public and private investment strategy

We need to tackle the chronic under-investment in the energy sector. At present a confusing array of funding mechanisms are not creating the right incentives. These funds should be managed and spent more efficiently to ensure maximum impact, making the best use of innovative financing instruments to leverage private funds, including project bonds. However, the rearrangement of existing instruments and leveraging of financial instruments alone will not be sufficient. Especially for infrastructure projects, which typically need a high level, around 50%, of public financing to attract matching private money, fresh public money needs to be injected. Therefore, we will need to go further than the measures presented in the Commission's €315 billion investment plan. As a part of our call for a European investment strategy, the S&D proposed a new European Investment Instrument (EII). This EII could provide a public financial capacity of €400 billion over six years, based on €100 billion, gradually paid-in capital by the Member States and an EU budget guarantee, with an additional €300 billion of borrowing on capital markets. This paid-in capital by Member States would be exempted from the calculation of their national public deficits and debt levels, which will encourage instead of penalise the much-needed investments. With this public financial capacity of €400 billion, the EII could attract private investment of €100 billion for the co-financing of infrastructure projects, financial support towards energy efficiency investments and lending in support of industrial innovation by SMEs. This would add up to total new public and private investments of around €500 billion.

**Action:**

- ✓ Establish a European investment instrument (EII), as previously proposed by the S&D Group to provide a capacity of €400 billion over six years.

### 3.6 A strong industrial base and investing in R&D

Increased support for energy-related R&D is key to a just energy transition and vital to reinforce the EU's technological leadership *vis-a-vis* the rest of the world, providing the most effective solutions for electricity storage, next-generation innovative renewable energy (wave, floating solar biofuels produced from algae), CO<sub>2</sub> valorisation (micro-algae, polycarbonates), ICT management of our energy system and smart appliances. The energy union should be part of a wider, comprehensive industrial strategy in order to achieve the 20% reindustrialisation target (20% of the EU's GDP should come from industry) and thus increased levels of R&D are vital if we are to increase competitiveness, re-launch the economy and ensure the progress necessary to bring about stable, low energy prices. The mid-term review of the Horizon 2020 research programme should be conducted with these priorities in mind.

Special attention should be accorded to the potential for blue growth, as sustainable electricity from marine power (offshore wind, tidal and wave energy) could create 1.6 million extra jobs and 100 billion extra gross added value by 2020.

**Action:**

- ✓ The mid-term review of Horizon 2020 should reflect the priorities of the energy union and allocate increased funding to these areas

### 3.7 Speaking with one voice

Energy and external policy must go hand in hand if we are to avoid divide and rule tactics from powerful external suppliers, and prevent the blocking of energy supply routes being used to exert political pressure on the EU and its Member States.

Europe's voice must be unified and thus amplified in international organisations such as the International Energy Agency, and the Union should act on behalf of its Member States in diversifying energy supplies. Alternative routes and energy suppliers need to be identified and developed especially for those Member States currently dependent on a single supplier. The Commission should set out the options available for the joint negotiation of energy contracts with external suppliers on behalf of Member States and take primary responsibility for the planning and development of major strategic infrastructure projects, which should always respect the EU's energy acquis. The EU should take a stronger stance when it comes to anti-dumping measures in order to

ensure that manufacturing industry can take full advantage of the energy transition (including turbines, solar panels, high-quality steel and construction materials).

**Actions:**

- ✓ Revision of Decision No 994/2012/EU establishing an information exchange mechanism on intergovernmental agreements between Member States and third countries in the field of energy to strengthen its provisions and ensure compatibility with internal energy market legislation and an enhanced role for the Commission.
- ✓ Commission to be given new powers on a case by case basis, to plan and negotiate major strategic infrastructure projects
- ✓ Stricter monitoring of anti-competitive behaviour and anti-dumping measures to protect our energy industries
- ✓ Commission to organise joint purchasing of gas on behalf of those private and public entities who so wish

### 3.8 Solidarity

There is increasing cross-border interdependence between national energy choices and strategies. Decisions in one Member State can have many (positive and negative) consequences for other Member States. At the very least better communication, consultation and cooperation are required between Member States, and ideally European mechanisms should be considered (possibly based on the "European semester" but with the democratic improvements our political family is calling for). Solidarity should be a mainstay of our energy policy and there must be a detailed evaluation of the scope, value and modalities of establishing common strategic gas reserves and significantly increasing reverse flow capacity in order to deal with supply-side shocks and ensure that gas can be effectively dispatched to where it is needed in the event of a crisis, with particular emphasis on solidarity between Member States. A priority of energy union should be to achieve the goal of ending energy islands as a matter of urgency. In formulating proposals, the results of the current energy stress tests should be taken into account.

**Actions:**

- ✓ Revision of the 2010 security of gas supply regulation with a view to enhancing reserves and possible establishing common strategic reserves
- ✓ Commission to make proposals for enhanced European mechanisms to better coordinate energy policy between Member States
- ✓ Increase reverse flow capacity

## CONCLUSION

We look forward to the Commission coming forward in early 2015 with a complete package of clear and concrete legislation paving the way to the sustainable energy transition which European citizens and industry so badly need

