European Economic and Social Committee

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State of the Energy Union

OPINION

European Economic and Social Committee

Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank – Second Report on the State of the Energy Union
[COM(2017) 53 final]

Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions – Renewable Energy Progress Report
[COM(2017) 57 final]

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1. Conclusions and recommendations

1.1 The European Economic and Social Committee (EESC) welcomes the Second Report on the State of the Energy Union as part of the process of monitoring the implementation and development of the Energy Union strategy. The EESC reiterates its call for a close Energy Dialogue with civil society at EU, national, regional and local level, in order to facilitate and boost tangible measures for a strong Energy Union.

1.2 The EESC has always considered the idea of the Energy Union to be of extreme importance for the success of the European Union. Therefore, progress should be assessed not only in terms of the elements of the Energy Union itself, but also in terms of its benefits for citizens and businesses, including SMEs.

1.3 The EESC thus calls on the Commission to monitor progress from different angles, namely: economic benefits, jobs development, progress in citizens' every-day lives, the energy system itself, political and societal drivers, and the use of policy instruments.

1.4 The EESC calls for the smooth adoption of initiatives launched up to now and – first and foremost – their timely implementation at EU level and in the Member States. The national plans are of key importance, and Member States have to take into account the inevitable implications of their measures on other countries.

1.5 The EESC points out that despite the progress made there are still considerable shortcomings as far as energy infrastructure and energy markets are concerned. Sufficient and reliable energy infrastructure and production capacity, well-functioning energy markets and energy efficiency are the key contributors to energy security. To this end, regional cooperation initiatives have to be continued, along with the development of domestic sources of energy and the geographical diversification of imported energy.

1.6 The EESC underlines the importance of continuing to ensure positive development in the area of renewable energy .The significant changes to the power system caused by a rapid increase in variable and decentralised renewable energy require special attention and have to be successfully managed.

1.7 The EESC welcomes the second phase of the European Fund for Strategic Investments (EFSI) as an opportunity to enhance public-private investment. As for private investment, market incentives are weak at present, largely due to incoherent policies. To encourage private investors, it is imperative to ensure a predictable investment environment, where the long-term and stable character of political decisions and legislation is of crucial importance.

1.8 The EESC calls on the Commission to make a comprehensive assessment of the current low-carbon policy instruments, in order to make sure that proper tools are used to achieve the objectives in the most efficient way. More focus should be given to tackling problems relating to taxes and charges that raise consumer prices, as well as subsidies that distort energy markets and investment signals.

1.9 Social benefits can be derived from the Energy Union through job creation and the direct and indirect use of energy by citizens in everyday activities. However, the attainment of a low-carbon energy system is a huge challenge which has to be managed in a way that ensures a fair transition.

1.10 With regard to global leadership of the clean energy transition, the EU should strive to maximise its positive global "carbon handprint", instead of focusing solely on its own emissions. This entails highlighting the role of innovation and trade and investment policies, as well as the need to promote global carbon pricing.

2. Background

2.1 This opinion addresses the Commission's Second Report on the State of the Energy Union and its Appendices, as well as the Commission Report on the Renewable Energy Progress. These documents illustrate the progress made in different areas of the Energy Union and highlight issues and areas where more action is needed.

2.2 The main report assesses the state of the Energy Union from the following points of view: the transition to a low-carbon and energy-/resource-efficient economy, consumer empowerment, future-proof infrastructure, the investment challenge and the external dimension of a strong Energy Union. It also evaluates the situation with regard to the five pillars of the Energy Union, i.e. energy security, the internal energy market, energy efficiency, decarbonisation and research, innovation and competitiveness.

2.3 The report also outlines the prospect of a new Energy Union tour by the Commission to the Member States. The tour is related to the preparation of the national energy and climate plans, and it also aims to address local actors.

2.4 The separate report on renewable energy progress describes the situation in the Member States and in different sectors, i.e. in electricity, heating and cooling, and transport sectors. It also addresses the administrative barriers to the introduction of renewable energy projects and discusses the sustainability of biofuels and bioenergy.

2.5 As for the future, the reports refer to the measures proposed by the Commission in its "Clean Energy for All Europeans" package of November 2016. The main report also includes an updated roadmap for the Energy Union, based on the original roadmap from the Energy Union Framework Strategy 2015.

3. Comments on the main idea of the Energy Union

3.1 The EESC has always considered the idea of the Energy Union to be of extreme importance for the success of the European Union. To this end, the Energy Union should respond to the needs of European citizens and businesses.

3.2 One of the basic ideas behind the Energy Union is to maximise the benefits by means of cooperation between Member States. Political coherence and unity is an essential and crucial

prerequisite of achieving meaningful progress. This holds true both for the development of the single energy market and for external energy relations.

3.3 This is even more important now that the EU faces a lot of uncertainties, risks and threats at global level. At the same time nationalism and protectionism have emerged at domestic level and could threaten the progress of the single energy market. At its best, the Energy Union could have an important role in increasing the overall unity – and the consequent global strength – of the EU.

3.4 In the field of energy itself, internal and external developments have rendered the Energy Union increasingly relevant. Internally, the interdependence of Member States and the repercussions of their energy decisions on each other are clearly visible in everyday life, while the external energy scene is ever more unpredictable.

3.5 The EESC agrees with the Commission's note that the Energy Union is more than energy and climate alone. The Energy Union is one of the basic components of economic development, job creation and citizens' welfare. All in all, it is a matter of the sustainability of the EU in terms of economic, social and environmental benefits.

3.6 The Energy Union can generate economic benefits in several ways: through economic activities that create added value by using energy as a factor in production, through the energy sector itself, and through economic actors who provide energy and climate solutions, be they technologies, services or new business models. To make this happen, the Energy Union has to provide a stable and favourable environment for European companies and enterprises, including conditions for cost-competitiveness and innovative differentiation. This should be done with a view to enabling and encouraging them to invest and employ, paying special attention to the potential of SMEs.

3.7 Social benefits are brought about by generating jobs and through the direct and indirect use of energy by citizens in a wide variety of everyday activities. However, the attainment of a low-carbon energy system is a huge challenge which has to be managed in a way that ensures a fair transition and the generation of decent jobs, particularly in regions that have been dependent on carbon-intensive activities. The EESC highlights the need to include adaptation measures in the national plans and calls on the Commission to facilitate these efforts.

3.8 The availability of and physical access to affordable energy are the key to avoiding energy poverty, a problem that also hinders citizens from making the shift to low-carbon solutions. The Energy Poverty Observatory should also finally begin its activities. As stated in the EESC opinion on the First Report on the State of the Energy Union, "Europeans will gauge the success of the Energy Union using very practical criteria, particularly prices, network accessibility, security of supply and consumer information about the equipment they use".

3.9 With regard to climate benefits, the energy and climate targets are often considered to be objectives in themselves. However, they must be seen as a means of achieving the ultimate goal: meeting the needs of citizens and generating economic welfare in a way that simultaneously contributes to climate change abatement, in accordance with the requirements set by the Paris

Agreement. In addition, the Energy Union contributes to reducing air pollution and thus brings about positive health impacts.

3.10 The EESC agrees with the Commission in saying that the Energy Union cannot be separated from other key European policies such as those on digitalisation, capital markets and investment, skills, the circular economy and security. The EESC also highlights the close connection between the Energy Union and transport policies. The energy and climate aspects of transport should not be dealt with in isolation from transport market issues.

3.11 All in all, the EESC emphasises that it is companies, workers, consumers and citizens at large who make changes in practice. The EESC therefore reiterates its call for a close energy dialogue with civil society. This should take place at all levels: in relation to policy-making at EU level, when preparing energy and climate plans at national level and, finally, when facilitating measures at local level.

4. Comments on the State of the Energy Union and follow-up steps

4.1 Implementation

4.1.1 The European Commission has defined 2016 as the year of delivery. Most of the planned Energy Union initiatives have already been published by the European Commission. However, most of these numerous initiatives are still waiting to be adopted and implemented. The EESC calls for the smooth adoption of these initiatives and – first and foremost – the timely implementation of measures at EU level and in the Member States.

4.1.2 The national energy and climate plans are an essential part of the Energy Union strategy's implementation process. Taking into account the different circumstances in Member States, preparation of national plans is a rational approach. The plans should be prepared in a participatory and cooperative manner. Simultaneously, it is important to build up a proper governance mechanism, in order to ensure not only that these plans are implemented, but that they are coherent and in line with the common objectives. We should also ensure that the roles and responsibilities of the Member States, the EU and other actors are made clear.

4.1.3 The decisions being made under the Energy Union framework are long-term and partly irreversible. This is why, the EESC stresses that long-term goals have to be kept in mind throughout the process. At the same time, sufficient flexibility has to be ensured both at national and EU level, given that the practical measures do not continue in a linear manner from year to year and that changing conditions require agile reactions.

4.1.4 The implementation of political targets and legislation should not be the sole focus when assessing the State of the Energy Union; instead the main focus should be on the real-life situation at EU level and in the Member States. This is particularly relevant given the complexity of the Energy Union's many objectives, pillars and numerical targets. In the next report on the progress of the Energy Union the EESC expects the Commission to describe the practical progress made and give examples on projects that have been successfully concluded,

as well as on plans for the next steps in contributing to increased interconnectivity, better functioning markets and social adaptation to the transition.

4.1.5 As the EESC has recently prepared opinions on the different aspects of the "Clean energy for all Europeans" package, it refers here to these opinions, which offer a more detailed view on governance and the different areas of the Energy Union.

4.2 Infrastructure, investment and markets

4.2.1 The energy system itself, which is the core of the Energy Union, must function and develop properly. It has to fulfil the three basic objectives – energy security, reasonable costs and prices, and climate change mitigation – from the point of view of both citizens and businesses.

4.2.2 Energy security remains a crucial objective because the modern economy and modern society cannot function, even for a while, without energy. Sufficient and reliable energy infrastructure and production capacity, well-functioning energy markets and energy efficiency are the key contributors to energy security. Energy security should not be considered to be a synonym for energy self-sufficiency. As is the case with other commodities, cross-border exchange both internally and externally actually improves the security of supply, while helping to keep prices at a competitive level. It does not exclude the fact that there are political reasons to avoid high dependency on imported energy. Developing domestic energy sources is also important from the point of view of job creation.

4.2.3 According to the Commission, the dependency on imported energy has decreased in several Member States, while in some others it has increased due to declined indigenous fossil fuel production. Most Member States can now satisfy their gas demand through alternative channels thanks to new interconnectors and LNG terminals. However, there is still a need for investment in infrastructure, as well as for energy diplomacy, which is one of the original mechanisms available to help strengthen energy cooperation. The EESC refers here to its previous opinions on these issues.

4.2.4 As for the single energy market, there are still regulatory and infrastructure bottlenecks that hinder sound competition and the free flow of, in particular, electricity. The power system is undergoing fundamental changes, mainly due to the rapidly increasing introduction of variable and decentralised renewable energy sources. Regional cooperation and an adequate common regulatory framework are necessary to meet accruing challenges, since measures carried out in one Member State have tangible implications – at least in neighbouring countries. Regional cooperation initiatives such as BEMIT (Baltic Energy Market Interconnection Plan) and CESEC (Central and South Eastern Europe Gas Connectivity) are key to addressing regulatory and infrastructure bottlenecks.

4.2.5 The development of the digital economy has a fundamental effect on energy systems as well. In addition to energy infrastructure, advanced digital infrastructure has to be built up. This includes smart metering that will enable smart energy grids. The digitisation of energy systems must also be accompanied by measures to enhance cybersecurity and to ensure adequate personal data protection, privacy and digital literacy.

4.2.6 With regard to investment in the energy system, there is a huge need to invest in energy infrastructure but also in energy efficiency, notably by renovating buildings. The EESC acknowledges the opportunities provided by the European Fund for Strategic Investments (EFSI) and welcomes its second phase, which aims to enhance public-private cooperation. Correspondingly, Member States also have to allocate public finances on energy-related investments.

4.2.7 As for private investment, market incentives are weak at present, largely due to incoherent policies. In order to encourage private investors, it is imperative to ensure a stable and predictable investment environment. The EESC therefore emphasises the crucial importance of long-term, stable political decisions and legislation.

4.2.8 The EESC highlights the growing role of citizens in relation to the energy markets, including increasing prosumerism and local cooperation. Measures aimed at enabling consumers to behave more consciously and to become prosumers have to be encouraged and strengthened. The EESC has considered these measures in several previous opinions.

4.2.9 To this end, adequate and easily understandable information on energy issues (e.g. energy efficiency labelling) must be delivered to citizens of all ages. Furthermore, fair access to the energy market and financing for small-scale projects need to be improved. Simplifying energy-related legislation under the REFIT initiative should bring tangible benefits to energy consumers. More focus should be given to tackling problems relating to taxes and charges that – despite the level of wholesale energy prices – raise consumer prices and thus contribute to energy poverty.

4.3 Renewable energy and decarbonisation

4.3.1 The EESC welcomes the Commission's separate Renewable Energy Progress Report and largely agrees with the analysis and challenges presented. As for recommendations, the Committee refers to its views on different aspects of renewable energy put forward in a number of previous and recent opinions.

4.3.2 According to the report, the EU as a whole is on track to achieve the 2020 target although extra efforts are still needed. The EESC once again underlines the importance of continuing positive development in this area. The EESC draws attention to the fact that heating and cooling is the largest sector in terms of absolute renewable energy deployment. The EESC also highlights the decisive role of transport in achieving the challenging long-term emissions targets and endorses the development of renewable electricity and advanced biofuels with a view to decreasing transport emissions.

4.3.3 The report points out that there are still remarkable administrative barriers to setting up renewable energy projects. They relate to one-stop shops, online applications, time limits for procedures, facilitating small-scale projects and identifying proper sites. The EESC calls for prompt measures to tackle these obstacles, which are common in other fields too.

4.3.4 The EESC welcomes the Commission's conclusion that the EU is also on track to achieve the 2020 energy efficiency and greenhouse gas emissions targets. As regards the policy instruments that aim to facilitate a move towards a low-carbon economy, the improper use of subsidies (including green certificates), emissions trading schemes and taxes has resulted in inefficient action and suboptimal results, due to the lack of market signals to encourage investment in low-carbon energy.

4.3.5 The EESC therefore calls on the Commission to make a comprehensive assessment of the current low-carbon policy instruments, in order to make sure that proper tools are used to achieve the objectives in the most efficient way, and without undue burden on energy users.

4.3.6 The EESC endorses the objective of ensuring global leadership of the clean energy transition and thereby creating business opportunities and jobs. Here the EU should strive to maximise its positive global "carbon handprint", instead of focusing solely on its own emissions. This can be achieved by developing and exporting climate solutions and products that are produced with fewer emissions than those made by competitors outside the EU, while recognising that global competition is fierce.

4.3.7 Global leadership requires increased investment in innovation, particularly by the public sector whose share has decreased. The EESC also emphasises the role of trade and investment policies in delivering energy and climate solutions. A global carbon pricing system is needed to boost the introduction of low-carbon solutions in a neutral and efficient way. The EESC calls on the Commission to actively strive for this kind of mechanism, which would level the playing field for European companies in the export markets and with regard to imported goods.

5. Comments on the monitoring mechanism and indicators

5.1 Because the State of the Energy Union evaluation is based on certain key indicators, it is important to make sure that the indicators are the most relevant ones. The EESC welcomes the Commission's plans to develop the indicators further, for example indicators measuring consumer empowerment. In its opinion on the First Report of the state of the Energy Union, the EESC called on the Commission to include social aspects among the criteria for evaluating the Energy Union and the impact of energy transition.

5.2 Currently, monitoring is primarily based on the five pillars of the Energy Union and the corresponding political and regulatory targets. Bearing in mind that "you get what you measure", the EESC highlights the need to monitor the progress made towards achieving the Energy Union's fundamental objectives i.e. the benefits it brings about for citizens and businesses, and consequently for the future of the EU.

5.3 The EESC thus calls on the Commission to follow the development of energy-related economic activities, in order to outline the economic value of the Energy Union. Correspondingly, the progress made on energy-related jobs should be monitored. This should also include the assessment of possible investment and job "leakage".

5.4 To bring the Energy Union closer to citizens, the EESC considers it important to monitor and communicate about progress from the point of view of consumers' every-day lives. This includes taking into account: energy bills, energy-related product information, the deployment of local, decentralised energy production, smart metering, e-vehicle charging stations, financial assistance for prosumers and energy efficiency incentives for renovation of houses etc.

5.5 In order to track societal drivers, changes in the perception of energy issues could be monitored, including: rising concerns about air pollution, growing interest in energy-related employment opportunities, the implications of technological developments, and the emergence of new players.

5.6 It would also be useful to assess measures taken by Member States in terms of whether they promote coherence or divergence in the internal market and in external relations. The most significant issue in this regard is to assess the consequences of Brexit on the Energy Union.

5.7 Finally, ensuring the quality of data is an essential part of improving the monitoring mechanism. Data should be timely, accurate, comparable and reliable, and this will require the continuous development of data collection and processing methods.

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The president of the European Economic and Social Committee