



# OPINION

European Economic and Social Committee

## State of the Energy Union 2021

Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions  
State of the Energy Union 2021 – Contributing to the European Green Deal and the Union's recovery (pursuant to Regulation (EU) 2018/1999 on the Governance of the Energy Union and Climate Action)  
[COM(2021) 950 final]

**TEN/767**

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**EN**

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## 1. **Conclusions and recommendations**

- 1.1 The serious situation currently unfolding as a result of Russia's invasion of Ukraine expressly shows that the risks to EU energy security and safety and the issues linked to it have been hugely underestimated not only in the text of the 6th annual report on the State of the Energy Union, but especially in reality. The current tragic picture shows that the bet on an intensive economic cooperation of the EU with Russia in the energy field was a fatal mistake that was strongly supported by many former high-ranking politicians from some EU Member States.
- 1.2 The extent of the potential risks linked to the dependence of the EU energy system on imports of raw materials needed for the energy sector from Russia, which accelerated after the annexation of Crimea, has now been revealed, and requires the EU to act as a matter of urgency.
- 1.3 The EESC is committed to the objectives of the Green Deal and recommends stepping up efforts to achieve the set targets and reduce the EU's dependence on fossil fuels as quickly as possible. However, the overall scenario for the implementation of the Green Deal needs to be adapted to make sure it is feasible and realistic under the current circumstances.
- 1.4 Regarding the Energy Union, the EESC strongly believes that the focus must now be on paying particular attention to its first pillar on security, solidarity and trust. At the same time, synergies between its pillars must be strengthened further, along with all relevant supporting instruments (financing, taxation, taxonomy, emission allowances and regulatory rules).
- 1.5 The EESC stresses that the 6th annual report on the State of the Energy Union is not perfectly balanced. Influenced by the effect of the supply shocks on the energy market, it focuses a great deal on energy prices and the instruments for eliminating carbon emissions, but only covers issues such as security of supplies or innovation and research superficially. The EESC would like to see a broader and well-structured overview of financial sources to strengthen the Energy Union, as well as improvements in the ways the Energy Union's progress contributes to innovative actions and competitiveness.
- 1.6 In particular, the EESC is more than irritated by the fact that, as in previous reports, key objectives of the European Energy Union are once again either not addressed or only marginally addressed in this report. It should be remembered, among other things, that our wish was to reduce import dependency, put citizens at the heart of the Energy Union, and make the EU the world's number one in renewable energy. One should expect that the annual State of the Energy Union reports will also analyse these key issues centrally and clearly identify possible flaws so that new initiatives can be developed where necessary. This report falls far short of this. For example, the issue of the development of civic energy, which is important for the EESC, is woefully neglected. The EESC expects the Commission to make clear statements on this in separate chapters in the 2022 report.
- 1.7 The EESC very much appreciates the fact that renewables have become the main EU power source; this is key in helping reduce the high dependence on EU energy imports and in supporting the Union's energy security. However, the Committee is of the opinion that more

tangible actions are needed to enable consumers to be actively engaged in the market and to benefit from more decentralised and more sustainable supply structures.

- 1.8 The EESC agrees with the report's statement on the potential of internal energy market development, which is not yet complete in terms of market environment, institutions, regulatory rules and connectivity between the Member States. The transition will be a test for energy infrastructure and all means must be mobilised in order to ready the infrastructure for change and make it resilient to future shocks.
- 1.9 The experience of the rise in energy prices in autumn 2021 combined with the current situation stresses the need to closely monitor the development of energy prices and to develop a more integrated approach on how to rationally deal with the impact of high energy prices on poverty.
- 1.10 The development of the EU Energy Union has entered a period when visible efforts need to be made with regard to improving security. There also needs to be a stronger emphasis on solidarity and trust. It is highly probable that next winter crisis management test will be inevitable, requiring preparedness to minimise the negative impacts on energy distribution and consequently on economic performance and living standards.
- 1.11 The EU should also be aware that the current system of energy deliveries from Russia to the EU keeps financial flows in the hands of the Russian state regime with these financial resources being used to fund its military efforts. Alternative ways of securing energy supplies through diversification of suppliers from different countries and use of different energy sources while enhancing solidarity inside the EU, must be found as soon as possible. This also applies to raw materials imported to the EU.
- 1.12 The EESC would very much welcome a stronger policy stance and an impact assessment of the relationship between energy and the digital sector, and between the Energy Union and the new industrial strategy for Europe, as well as some forecasts on the impact of the current risky situation facing the EU energy sector, business and society.
- 1.13 The State of the Energy Union report also deserves a specific section on efforts to achieve a just transition, including best-case examples implemented in the Member States and at the European level, how EU financing is used in order to give a financial boost to the reskilling and upskilling needed for the green transition. The EESC emphasises that the just transition is not just a question of financing the transition. It also includes the goal of working with the social partners to create decent work and quality jobs as well as social security, and requires specific action at the regional level.
- 1.14 The EU is lacking in public investment in clean energy R&I and is therefore lagging behind its global partners, and thus risks falling behind in the area of important future technologies and markets. The EESC strongly encourages the European Commission to come up with a strategic plan for the clean energy sectors in order to give a boost to the development of clean energy industries in the EU.

## 2. **Background**

- 2.1 The 6th annual report of the European Commission takes stock of progress in the implementation of the European Union energy and climate policies, including the Energy Union across its five pillars. It also highlights how the EU's new climate targets, enshrined by the European Climate Law, were translated by the Fit for 55 package into meaningful legislative proposals. The green transition is regarded as part of the solution on the path to climate neutrality and a response to the impacts of the COVID-19 crisis.
- 2.2 The report confirms a positive trend in the reduction of EU greenhouse gas emissions. In 2020, GHG emissions were down 31% compared to 1990 due to the impact of the pandemic on energy consumption but also due to continued decarbonisation trends. Projections submitted by Member States in 2021 point to a 34% reduction in GHG net emissions by 2030 with existing measures and to a 41% reduction with additional measures for the EU, compared to the GHG emissions reduction of at least 55% laid down in the European Climate Law.
- 2.3 For the first time, renewables overtook fossil fuels as the EU's main power source in 2020 (38% of EU electricity, fossil fuels 37% and nuclear 25%). The share of renewable energy sources in the overall EU energy mix is expected to have reached at least 22% although some Member States are at risk of failing to meet their national binding target. The uptake of renewables was supported by the investment of EUR 48.8 billion in 2020 compared to EUR 32.9 billion in 2019. However, the picture varied across the different technologies.
- 2.4 This report is published against the backdrop of a sharp spike in gas and electricity prices. Wholesale electricity prices have increased by 230% on a yearly basis with a more moderate impact on retail prices until September 2021 (+11% EU average). The price shock was largely felt due to negative electricity prices experienced in 2020, pushed down by the economic slowdown.
- 2.5 This was largely driven by rising gas prices which had an effect on the electricity price nine times bigger than the effect of the observed carbon price increase over the same period. Gas storage levels are low and the EU is experiencing the highest level of overall net energy import dependency in the past 30 years (60.6% in 2019 compared to 58.2% in 2018 and 56% in 2000). This is despite the fact that reducing this dependency has been and remains an explicit goal of the Energy Union. A "State of the Energy Union" report should not only mention such negative figures, but also explain why the objective of reducing import dependency has not been even partially achieved.
- 2.6 The increase in energy prices prompted the European Commission to issue the toolbox for action and support in order to quickly help vulnerable groups. In 2019, energy poverty affected up to 31 million people in the EU. This underlines the importance of shielding vulnerable groups from the price spike and ensuring a just transition towards climate neutrality.
- 2.7 In the report, the Commission tasked the Agency for the Co-operation of Energy Regulators (ACER) with assessing the benefits and drawbacks of the current wholesale electricity market set-up, including its capacity to address situations of extreme price volatility in gas markets.

- 2.8 Renewable energy subsidies reached EUR 78 billion. On the contrary, fossil fuel subsidies dropped slightly in 2020, down to EUR 52 billion. However, they might increase with the current economic growth. According to the 6th report, nine Member States have phased out coal, 13 have made national commitments to do so by a certain date, four are considering possible dates and only one has not yet started national discussions on a phase-out.
- 2.9 The pace of decline in 2019 towards the 2030 targets was satisfactory for primary energy consumption only. EU primary energy consumption declined by 1.9% and final energy consumption by 0.6% in 2019 compared to 2018. Much greater efforts are needed to reduce the existing final energy consumption target and achieve the higher ambition set out in the proposed revision of the Energy Efficiency Directive.
- 2.10 The report helps identify future areas for action and increased efforts. Beside the need for investment, the report also stresses the need for the removal of administrative barriers to RES deployment and acceleration of permitting procedures.
- 2.11 The EU is looking into how to increase the safety and security of energy supplies as well as to ensure better interconnectivity across the EU. The crisis pointed out the need to ensure security of supply and avoid supplies coming from unsecure sources.
- 2.12 EU public clean energy R&I spending in Member States continues to be lower than in 2010, but national and EU recovery funding that targets clean energy R&I can partially compensate this. The 2021-27 EU budget will provide significant support to implement the European Green Deal and the energy transition across the Union. In particular, the European Regional Development Fund and the Cohesion Fund will allocate at least 30% and 37% respectively of the available funding to this objective. Besides that, the green transition will be funded by the Just Transition Mechanism or InvestEU.
- 2.13 By 5 October 2021, the planned combined climate-related investment in 22 national recovery and resilience plans (RRF) was around EUR 177 billion, representing 40% out of a total of EUR 445 billion of RRF funds allocated to these Member States.
- 2.14 The Communication is accompanied by the following five reports on:
- Energy subsidies in the EU
  - Climate Action Progress Report 2021
  - Progress on the competitiveness of clean energy technologies
  - The fuel quality report, and
  - The report on the functioning of the carbon market (emissions trading system).

### 3. General comments

- 3.1 The EESC perceives the Russian military invasion of Ukraine as a gigantic shock to the security, functioning and performance of the Energy Union, besides it being a horrific situation for Ukraine and its people. This is the biggest security threat in the history of European integration. It requires re-defining and adjusting the EU's strategic and security priorities and preparing appropriate instruments for the implementation of these priorities as soon as possible.
- 3.2 The EESC urges the EU institutions to be more far-sighted about future security threats and to pay more attention to the security and diversification of supplies as well as ensuring better solidarity among EU Member States. The security threat has also revealed the need to speed up the rollout of renewables in order to decrease the EU's dependence on fossil fuels and to ensure that the goals of the Green Deal are achieved.
- 3.3 The EESC takes note of the European Commission's detailed report taking stock of the change and of progress in the implementation of the European Union energy and climate policies. It positively assesses the progress of the EU in fulfilling its climate targets and welcome the identification of areas where more progress needs to be made. In 2020, the COVID-19 pandemic had a somewhat positive impact on the reduction of CO<sub>2</sub> emissions as it pushed down energy consumption, and thus production. However, the economic growth in 2021 pushed demand upwards which influenced together with other elements the surge in energy prices. The EESC, welcomes that the Commission's Communication on energy prices<sup>1</sup> allowed help and support to quickly be given to the vulnerable, to address the negative impacts of the price shock and draws attention to its opinion TEN 761<sup>2</sup>.
- 3.4 The EESC encourages the European Commission to follow the development of energy prices very closely and suggests including the statistics on the development of energy prices in the next report on the State of the Energy Union. In this regard, it points out the need for more consistent data that can provide an accurate picture of the market.
- 3.5 As in its previous reports, the EESC highlights that the green transition must happen in a just manner, leaving no one behind. The transition is not only technical but economic and social too. Regular dialogue with citizens and civil society, including social partners, especially in regions in transformation, will ensure that the climate and energy policy objectives will be perceived as socially attractive and met with the minimum socio-economic costs. At least as important as deepening dialogue is delivering on the promise to actively integrate citizens into the market, make them "prosumers", and involve them in new value creation opportunities. Quality of operationalisation and funding of individual instruments and their specific implementation at national level will be crucial in this regard. Including the views of social partners must therefore be a key objective of future dialogues and is a central prerequisite for achieving a successful and just transition.

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<sup>1</sup> [COM\(2021\) 660 final](#).

<sup>2</sup> <https://www.eesc.europa.eu/en/our-work/opinions-information-reports/opinions/energy-prices>.

- 3.6 The State of the Energy Union report should also include a section on efforts to achieve a just transition, incorporating examples of measures successfully implemented in Member States and at European level. The EESC emphasises that the just transition is not just about financing the transition. It also includes the goal of creating decent work and quality jobs, as well as social security, and requires specific actions at the regional level.
- 3.7 The EESC would like to see a more balanced approach of the 6th annual report to the particular areas of the Energy Union. It focuses comprehensively on the areas of energy efficiency and decarbonisation, which currently represent the key policy priorities. However, the attention paid to the topics of security, solidarity, and confidence, or research, innovation and competitiveness, and challenges and achievements surrounding these areas seems to be insufficient.
- 3.8 In particular, the EESC is more than irritated by the fact that, as in previous reports, key objectives of the European Energy Union are once again either not addressed or only marginally addressed in this report. It should be remembered, among other things, that our wish was to reduce import dependency, put citizens at the heart of the Energy Union, and make the EU the world's number one in renewable energy. One should expect that the annual State of the Energy Union reports will also analyse these key issues centrally and clearly identify possible flaws so that new initiatives can be developed where necessary. This report falls far short of this. For example, the issue of the development of civic energy, which is important for the EESC, is woefully neglected. The EESC expects the Commission to make clear statements on this in separate chapters in the 2022 report.
- 3.9 It is pleased to see that Member States increased their ambition in achieving existing 2020 targets for renewable energy, henceforth the main power source for electricity. It encourages those Member States which are failing to achieve this target to focus on better deployment of RES support and/or engage in agreements for statistical transfers. In doing so, the EESC would like to point out, as shown by a study by the Commission<sup>3</sup>, that phasing out fossil energy is accompanied by a substantial reduction in external costs (such as health and environmental costs), which must be borne by society. To illustrate: for electricity generation, fossil fuel technologies have the highest external costs of €68-€177/MWh for the EU-27 average. Nuclear and renewable energy technologies have external costs, of €3-17/MWh with wind and hydropower, reaching levels below €5/MWh.
- 3.10 Compared to previous reports, the Committee welcomes the focus on the role of prosumers. We recall our plea that the most important objective is that citizens should be at the core of the Energy Union<sup>4</sup>. Consumers should have the possibility to choose and to be actively engaged in the market. Still, concrete measures in EU legislation need to be adopted in order to put this concept swiftly into practice.
- 3.11 The internal energy market is still not complete. It does not offer sufficient benefits to small renewable energy producers. Moreover, the energy price surge showed the weaknesses of the

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<sup>3</sup> Study on behalf of the European Commission: Energy costs, taxes and the impact of government interventions on investments | EnergyVille.

<sup>4</sup> [OJ C 220, 9.6.2021, p. 39.](#)

energy market. It revealed that some energy suppliers are not competent to exercise this activity, nor have a sufficient capital base. The cultivation of the market, its relevant regulation, the creation of the necessary requirements for individual actors and reasonable consumer protection should be reinforced.

- 3.12 The Committee regrets that not only has its call for a reduction in strategic dependency on third parties not been heard but this dependency has actually increased. In 2021, the EU reached its highest dependency on energy imports in the last three decades. This failure played a role in the energy price surge. In this regard, we recall our statement that the European Commission and Member States should avoid any further increase in imports and take this topic seriously when pointing to hydrogen or other energy sources as a driving force for the decarbonisation as it can further increase imports. Given the current situation, it is not only important to implement a strategy to reduce the EU's increasing energy dependence, but also to provide a feasible territorial diversification of energy deliveries and distributions without geopolitical risks.
- 3.13 The Member States proved that they are willing to support the green transition, and the share of spending on climate-related investment from 22 RRF equal to 40% of total budgets confirms how costly the green transition is and will be. However, the EU's rate of public investment in clean energy technologies needed for decarbonisation is the lowest of the major economies and hampers our competitive edge over global partners. We also need to put citizens at the centre of energy policy. If they are able to invest and benefit from their investments, a considerable amount of private money can flow into that sector.
- 3.14 Fast approval of the delegated act of the rules defining environmentally sustainable economic activities seems to be a crucial signal for opening up the public clean energy R&I spending in Member States. The EESC expects that it will also contribute to the reduction of investment in fossil fuel capacity and associated subsidies.
- 3.15 The Carbon Market Report 2021 offers proof of a significant contribution of the EU ETS to decarbonisation. In the period 2013-2020 it generated auction revenues exceeding EUR 68 billion. The EESC takes note that 75% of the EU ETS revenues was used for climate action and energy-related purposes, which is well above the 50% limit for Member States. In this regard, the EESC encourages Member States to further increase this share in order to combat climate change.
- 3.16 The European Union is not an island, its cooperation on the international scene is of utmost importance as well as the coordination with global partners regarding climate policy. The EU should work towards the objective of climate neutrality, while ensuring competitiveness and security of energy supply at affordable prices for businesses and citizens.
- 3.17 It appreciates that the report includes the data for employment in the clean energy sector, growing 2% per year. The EU suffers from vacant green jobs which will become more striking with an accelerated green transition headed by investments in renovations. We need to ensure that people with the right skills can swiftly enter the labour market and that the new jobs created by the green transition are jobs with good working conditions and decent wages. It is important

to invest as much effort as possible in developing training and qualifications in the field of energy renovation.

- 3.18 The current situation in the energy market reflects some underestimation of several aspects of energy security, especially in terms of deliveries of gas to the EU, or insufficient efforts to eliminate the high, and even deepening dependence of the EU on energy imports. It also reflects a limited solidarity among the EU Member States to efficiently solve the problem, including a potential lack of trust to reach a consensus.
- 3.19 The EESC highly appreciates a huge volume of financial sources coming from the 2021-2027 EU MFF and Next Generation EU to be specifically targeted at tackling the challenges connected with the Energy Union's targets.

#### 4. **Specific comments**

- 4.1 Despite the EU's commitments to phase out fossil fuel subsidies, they are not declining sufficiently. The annex to the report shows the slight decline in fossil fuel subsidies but with economic growth we can expect their increase. Between 2015 and 2019, fossil fuel subsidies rose in the EU by 4% and decreased measurably in 2020. They fell by 10% in the energy sector and by 4% in industry, while in transport they rose by 25% and by 13% for households who benefit from subsidies on heating oil and natural gas consumption. Subsidies play an important role in the social area, as they ensure that the transition towards a climate-neutral economy happens in a just manner.
- 4.2 The EESC regrets that the report does not analyse the relationship between the energy and digital transition. Digitalisation opens up opportunities for savings in energy, reduction in energy intensity as well as better management of energy infrastructure. The report could develop in depth the solutions for the increasing demand in electrification and the need for stable and sustainable energy solutions. The transition will be a test for energy infrastructure and all means must be mobilised in order to ready the infrastructure for change and make it resilient to future shocks.
- 4.3 Reskilling and upskilling will play an important role in the green transformation. In order to build up concrete strategies for monitoring and anticipating the needs for skilling, up- and reskilling of workers in the electricity sector, the EESC points to the outcomes of the social partner project "The Skills2Power". The report on the State of the Energy Union could also take stock of how EU financing such as the RRF, Erasmus+ or cohesion funds are used in order to give a financial boost to the reskilling and upskilling needed for the green transition.
- 4.4 The EESC recommends very close monitoring of the potential bottlenecks in the raw materials supply chains for energy technologies that are critical for energy security and the clean energy transition. It suggests diversifying as much as possible the supply of critical raw materials by entering into international talks with global partners and preparing a scenario for alternative solutions.

- 4.5 The EU needs more investment in clean energy R&I. The EU's rate of public investment in clean energy technologies was 0.027% of GDP in 2019. How can we be serious about the clean energy rollout when we have the lowest rate among the major economies? Although the EU retains a strong position in the wind industry, it is lagging behind global partners in multiple other industries including solar PV, renewable hydrogen, heat pumps or renewable fuels<sup>5</sup>. The EESC encourages the European Commission to come up with a strategic plan for each of the sectors in order to give a boost to the development of clean energy industries in the EU.
- 4.6 In order to monitor which Member States are the most agile in the areas of research, development and innovation, the EESC suggests publishing a scoreboard on a regular basis. This could concern EU managed programmes, but also cohesion policy and the RRF as we already have an RRF scoreboard and the long-running cohesion policy scoreboard<sup>6</sup>.
- 4.7 The EESC strongly recommends making the EU ETS system more transparent and applying a system of reasonable interventions making it possible to adjust the allowance price to the desired target and eliminate the sudden price volatility observed over the last year (first an enormous increase to over EUR 100 and now a steep drop to about EUR 55 within a few days).
- 4.8 The EESC recommends that Energy Union governance and management reflect more intensively on the synergies with the new EU industrial strategy (as defined in the Commission's communication of March 2020).
- 4.9 Regarding the targets connected with decarbonisation, the EESC stresses that all types of instruments, namely the regulatory rules, the EU ETS system, the environmental taxes, and taxonomy, have to be coordinated and harmonised in a well-tuned and functioning system.

Brussels, 19 May 2022

Christa SCHWENG

The president of the European Economic and Social Committee

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<sup>5</sup> [COM\(2021\) 952 final](#).

<sup>6</sup> <https://cohesiondata.ec.europa.eu/>; [https://ec.europa.eu/economy\\_finance/recovery-and-resilience-scoreboard/index.html#](https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/index.html#).