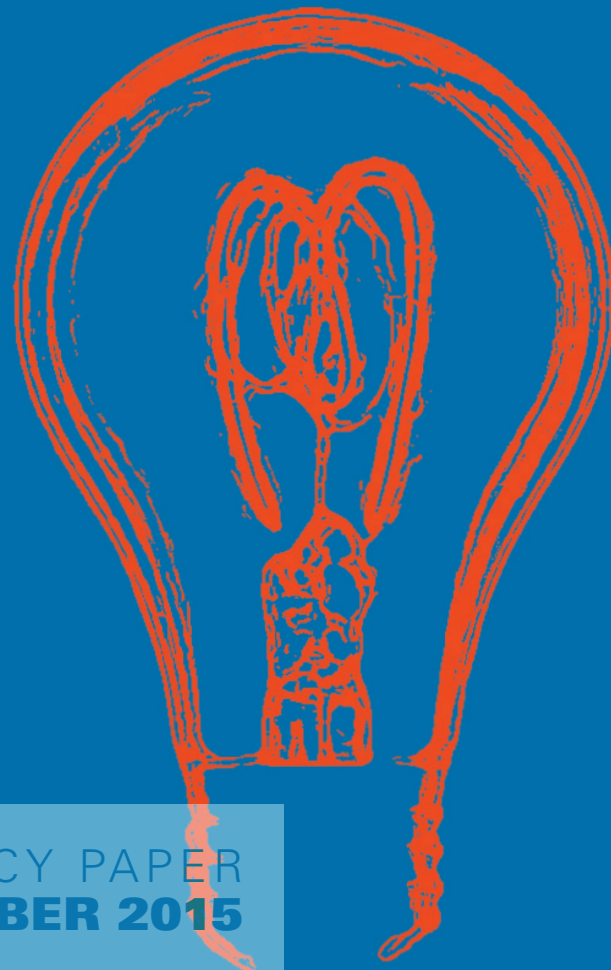


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A BRIGHT FUTURE FOR FOSSIL ENERGY IN THE EU?

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INTRODUCTION

The European Union's (EU) climate targets for the Paris Climate Conference (COP21) provide either a weak or an ambitious mandate for negotiating a global agreement on climate – it all depends on the perspective of the various stakeholders involved. An international agreement on mitigating climate change combined with national climate protection programmes and laws are needed if we are to prevent uncontrollable climate change. The EU is linking this hope of creating an overarching framework for global climate policy (which applies to all areas of policy and their powerful stakeholders) to the need for markets to take an international approach to resolving the global environmental crisis. The corresponding market mechanisms must make a net contribution to reducing greenhouse gas emissions.¹ Within this frame of reference, the competition turns climate protection into mere carbon accounting between different countries and different policy areas.

The EU's dominant climate narrative stresses its pioneering role and the fact that it has set a legally binding target for its Member States. They are required to cut greenhouse gas emissions by 40% by 2030, compared to 1990 levels. In this narrative the critical perspective is provided by environmental organisations. They accuse the EU of displaying a lack of ambition on climate issues, but do not fundamentally call into question the overall framework of EU climate policy. One of the main problems with the plan to reduce greenhouse gas emissions is the gap between the reductions that are needed to prevent uncontrollable climate change and the cuts that are planned as part of the EU's climate policy.²

This largely depends on the market conditions that govern the EU's emissions trading, and therefore also the market conditions that govern fossil, nuclear and renewable energy in the internal energy market. In contrast to this mathematical problem relating to a number of climate protection scenarios – which determine public awareness of the role of the EU – this policy paper focuses on the EU's energy policy instruments, which are in conflict with social and environmental transformation.

The European Energy Union as a vision for creating a coherent overall framework should bring together all the key areas of climate and energy policy and – at least on the surface – encourage all EU Member States to pursue consistent actions and targets in terms of their energy and climate policies. A key objective is to create an integrated energy market that will decarbonise energy supply in a cost-effective way. It is also important to expand transmission capacity in the electricity and gas sectors in order to link the Member States' markets. Some concrete measures that can be taken to ensure energy supply security include achieving a cross-border distribution capacity target of 10% of installed electricity generation capacity in the EU by 2020.

Against this background, this policy paper will look at the EU's official negotiating mandate in certain areas and contrast this with the EU's energy policy (which plays a key role in the social and environmental fight against taking the wrong approaches to climate change), with the policy instruments used and with the planned European Energy Union.

1 General Secretariat of the Council (18 September 2015): 6.

2 Cf. CAN Europe (2015): Gigatonne Gap in the EU Pledge for Paris Climate Summit.

THE MANDATE FOR PARIS (COP21)

The key stakeholders who are calling for the EU to play a leading role in international climate policy are all hoping that a legally binding agreement on climate change will be signed in Paris. But they are also expecting this agreement will not go far enough to prevent uncontrollable climate change.³ As a solution to the emissions gap, the EU's mandate stipulates that international efforts to prevent climate change by all parties to the agreement must be reviewed every 5 years. However, to date the EU has refused to include this mechanism in Europe's efforts to combat climate change. Depending on one's particular perspective, the EU's binding domestic climate target of a 40% reduction in greenhouse gas emissions by 2030 compared to 1990 levels can be viewed as either pioneering or as an inadequate commitment to the international climate talks.

As its vision, the EU prefaces its mandate by calling for all parties to the Framework Convention on Climate Change to pursue the route of transformation with the long-term objective of achieving global and sustainable climate neutrality. This means that greenhouse gas emissions

should not be reduced or even prevented at source but balanced out by means of compensation mechanisms. As one of the key instruments of this vision, the EU calls for the markets to take an international approach to decarbonising the economy in a cost-effective way, resulting in a net contribution to global efforts to reduce greenhouse gas emissions.⁴ The Paris summit has to agree a work schedule for this international approach by the markets in order to develop rules, modalities and procedures in this respect. We need functioning market mechanisms in order to escalate efforts to combat climate change.⁵ In contrast, the potential of renewables and energy efficiency to contribute to these endeavours is only mentioned with reference to strengthening global targets for the period to 2020.⁶ These factors are ignored in terms of their long-term potential for creating social and environmental transformation and their energy-saving potential in general. A comparison of these particular aspects of the EU's mandate with the way it formulates and implements policy inevitably leads us to the ongoing debate about the Energy Union and, at its core, the internal energy market.

3 Cf. Climate Action Tracker (2015): Tracking INDCs [<http://climateactiontracker.org/indcs.html>].

4 General Secretariat of the Council (18 September 2015): 6.

5 Ibid.: 8.

6 Ibid.

THE CURRENT DEBATE ABOUT THE ENERGY UNION

The idea of the European Energy Union is based on that of an energy community, an international organisation, which was founded in 2005. It was set up to create a binding legal framework for expanding the EU's internal energy market to South East Europe and the Black Sea region.⁷ In 2010 Jerzy Buzek, who at that time was President of the EU Parliament, and former President of the European Commission Jacques Delors called for a „European Energy Community“. Its goal was to integrate the Member States of Central and Eastern Europe into a system of common energy supply security based on a new foundation of primary law. However, this proposal attracted little interest. It was only after the Financial Times published an article by Polish Prime Minister Donald Tusk (now President of the European Council) that the idea began to attract interest in light of the escalating war in Ukraine and worries about the EU's dependency on imports of Russian gas. Tusk also called for the best possible use of domestic fossil fuels, including coal and shale gas and to „return the European project to its roots“ – by which he meant fossil and nuclear fuels.⁸

When Jean-Claude Juncker took over as President of the European Commission in November 2014 he announced that this project would be one of his top five priorities.⁹ The European Council had already included the Energy Union as one of the five items on its strategic agenda¹⁰.

It listed its five priorities as energy supply security, a completely integrated single energy market, energy efficiency, decarbonisation, and research, innovation and competition.¹¹ The Council also stated the need for „the development of a reliable and transparent governance system to help ensure that the EU meets its energy policy goals.“¹² The EU Commission links these goals of achieving a „secure, sustainable and competitive energy policy“ to a greater degree of communitisation in the energy policies of EU Member States, so that „a fragmented system characterised by uncoordinated national policies, market barriers and energy-isolated areas“¹³ becomes a thing of the past.

To date, the European Energy Union has only been a vision that the EU Commission has put down on paper. The individual proposals on its implementation have yet to be presented.¹⁴ Planned initiatives include everything from voluntary actions to binding legal instruments, and build on previous legislation relating to the EU's climate and energy policies. The EU's accumulated legislation (*acquis communautaire*) in the area of energy policy has been shaped by the conflicting goals of coordinating and communitising the EU's energy policy. It also positions the goals of the EU's energy policy amongst the somewhat contradictory aspects of competition law and climate policy in the fossilised discourse on energy supply security.

One of the stated initiatives of the Energy Union requires particular attention. This is the announcement of a proposal for designing an EU electricity market, as this has a direct impact on the market conditions for fossil, nuclear and renewable energy.

7 Cf. <https://www.energy-community.org>

8 Cf. <http://on.ft.com/1YgF7P2>

9 Cf. Juncker, Jean-Claude (2014): My Priorities (<http://juncker.epp.eu/node/151>)

10 Cf. General Secretariat of the Council (26/27 June 2014): Annex I.

11 Cf. General Secretariat of the Council (19/20 March 2015): 1.

12 General Secretariat of the Council (24 October 2014): P.9.

13 COM(2015) 80 final: 2.

14 Cf. COM(2015)80

DESIGNING THE EU ELECTRICITY MARKET OF THE FUTURE: CLIMATE PROTECTION, ENERGY SUPPLY SECURITY AND COMPETITIVENESS

The proposal for a European Energy Union provides for a „legislative proposal to redesign the electricity market and link wholesale and retail markets“ for the 2016 electricity market. End customer prices should move in line with wholesale prices and the Member States should „establish a road map for the phasing-out of all regulated prices.“¹⁵ In this way, the Member States should protect particularly vulnerable consumers from energy poverty, „which could preferably be provided through the general welfare system“. Other measures against energy poverty could be implemented „through schemes such as a solidarity tariff or as a discount on energy bills“. However, these other mechanisms cannot make up for the increasing energy poverty caused by the plan to push back price regulation.

In the planned Energy Union, support for the production of renewable energy must be done in harmony with the guidelines for national environmental protection and energy subsidies via market-based mechanisms, including those that require tender and marketing processes,¹⁶ which are to the detriment of community renewable energy.

In the area of energy efficiency, the principle of „energy efficiency first“ should apply and be considered as an „energy source in its own right, representing the value of energy saved“¹⁷. However, in light of the non-binding targets set by the EU in the area of energy efficiency, it seems doubtful that this principle will be applied. It will only be subjected to a reality check when the Energy Efficiency Directive is reviewed in 2016.

In the area of energy supply security, the Commission is trying to amend the Regulation concerning measures to safeguard gas supply security and the development of a strategy for liquefied natural gas and its storage. The focus is on communal gas purchasing. Another key issue in the electricity

market is the need to focus on the previous target of increasing the electricity interconnection of every Member State to at least 10% of its electricity generation capacity by 2020 and to 15% by 2030. This brings with it the danger that an improved electricity interconnection will favour those companies that want to export electricity from coal and nuclear sources. The targets are to be achieved via funding for PCI projects (projects of common interest) with energy infrastructure measures. The European Commission estimates that €200 billion will be required between now and 2020, including approximately €105 billion for electricity projects and €35 billion for connection cables to achieve the target. It is planned that the Agency for the Cooperation of Energy Regulators (ACER) will oversee the Energy Union. Its powers and autonomy are to be expanded considerably, so that it can „deal with all cross-border issues necessary to create a seamless internal market.“¹⁸ It is also planned to more closely integrate the European Network of Transmission System Operators (ENTSO-E).

In the area of decarbonisation, the planned reform of the Emissions Trading Directive and the introduction of a Market Stability Reserve in emissions trading will be the key issue when drawing up governance structures for the climate and energy targets for 2030. Robust scrutiny of the Member States' voluntary commitments is required, as the target for renewable energy will not be binding at Member State level but at European level.

In the area of research, the EU Commission is keen to update its Strategic Energy Technology Plan (SET Plan) and draw up a strategic agenda for research and innovation for traffic. The overall concept builds on *Horizon 2020*, the EU's Framework Programme for Research and Innovation. Along with four key priorities, it also supports controversial research projects for carbon capture and storage (CCS) and carbon capture and utilisation (CCU), along with nuclear research projects such as continuing to work on the ITER fusion reactor.

15 COM(2015) 80: 14.

16 Ibid.: 3.

17 Ibid.: 14.

18 COM(2015) 80: 11.

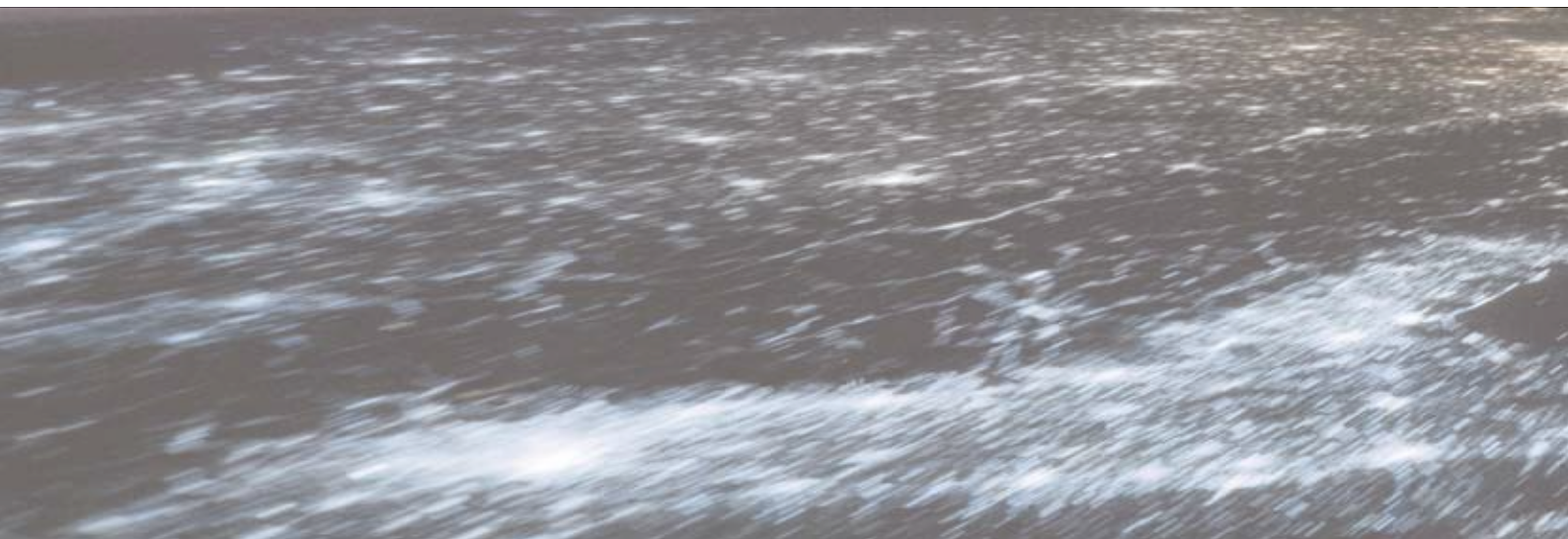
CONCLUSIONS

The EU's negotiating mandate for the Paris Climate Conference (COP21) makes it clear that the EU sees global climate protection as an opportunity for expanding markets and implementing market mechanisms. These have long played a key role in European climate policy and its subsidiary areas, such as energy policy. According to the logic of the markets, it does not matter in which country or policy area greenhouse gas emissions are emitted, as long as they can be traded as emission rights, certificates or vouchers. This logic flies in the face of a social and environmental transformation of the economy, which requires the reduction or avoidance of greenhouse gas emissions at source. In the energy industry this involves a strategy of full supply through renewable energy. At the same time, energy companies and energy-intensive industries are benefiting from the general overhaul of Europe's fossil fuel-based energy systems. For example, as part of the EU's emissions trading scheme they receive income in the tens of billions while consumers are left to subsidise these windfall profits.

In light of its previous history, the Commission's proposal for an Energy Union can be seen as an attempt to counter the renationalisation of energy and climate policies and to mitigate the basic conflict on European policies that exists between northern and western Europeans on the one hand, who are transforming their energy systems, and central and eastern Europeans on the other, who are keen to retain their national energy structures based on fossil fuels.¹⁹ From the consciously comprehensive and equivocally formulated framework strategy, the governments of the Member States are trying to include the European Energy Union in their positions on energy and climate policy. In this way, they are concealing the deep-rooted conflicts of interest that exist in the EU's climate and energy policy.²⁰

19 Cf. SWP Aktuell 36/2015: 2.

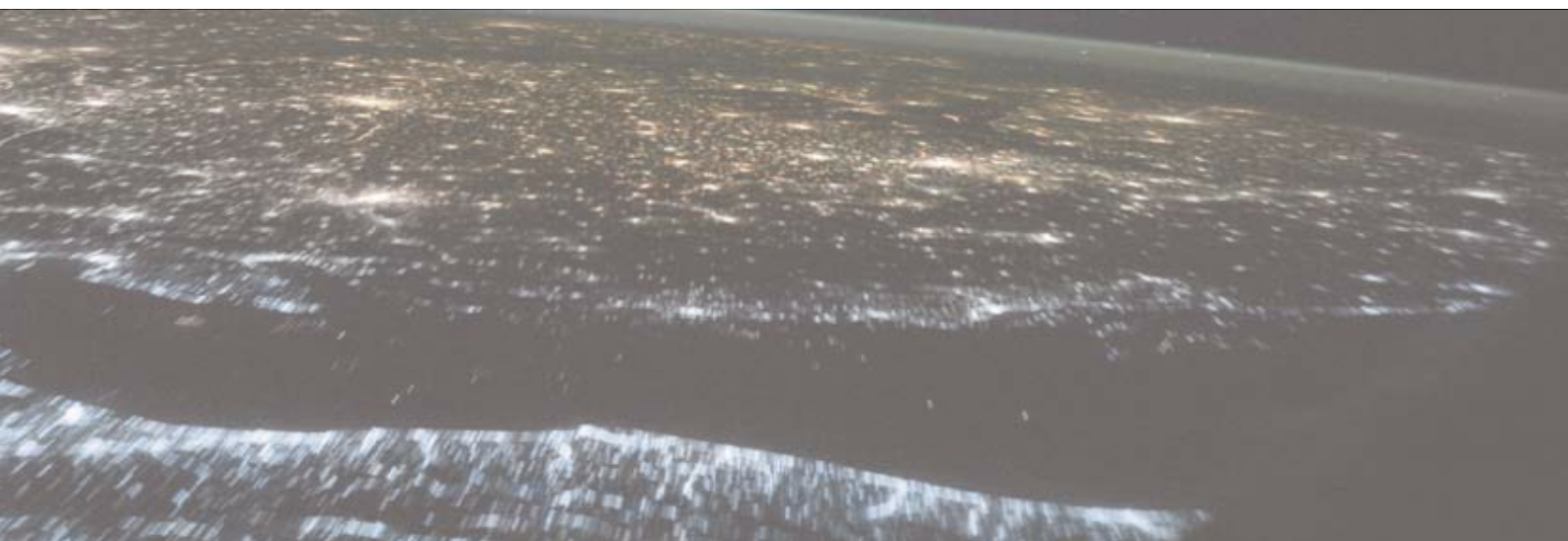
20 Cf. SWP Aktuell 73/2014



This brief description of the European Energy Union, combined with the EU's planned climate and energy targets for 2030 of a Europe-wide (but non-binding at Member State level) share of 27% renewables in the energy mix and an indicative target of 27% energy efficiency, exposes the fact that the ruling powers in the EU are planning for a future based on fossil fuels. The target for renewable energy, which is only binding at EU level, means that renewables have to adapt to the Member States' fossil fuels-based energy systems. This adaptation is also inherent in the pressure to support renewables in line with the requirements of the market. The compulsory tender process for renewable production capacities is slowing down the energy transition and favours the major, centralised projects of companies rather than supporting decentralised community renewable energy within the framework of local utilities and energy associations, which would drive forward social and environmental transformation. If the renewable energy transition is managed centrally at EU level and watered down, this undermines or prevents democratic, participative decision-making processes and participation opportunities in the decentralised restructuring of local energy supplies.

Companies are being supported out of the pockets of consumers. The Europe-wide abolition of national energy price regulation presents companies with a blank cheque for their profits and pricing policies. In the meantime, energy poverty in Europe is increasing. Consumer vulnerability, as it is known in EU jargon, ignores the core issue at the heart of energy poverty. Protecting a need instead of the right to a basic supply of electricity and gas provides the impression of charitable benevolence on the part of the energy suppliers, rather than highlighting their duty to supply.

The expansion of the electricity and gas distribution networks presents an obstacle to a decentralised, Europe-wide transition to renewable energy. Supporting electricity and gas infrastructure projects allows energy companies to profit on the energy markets from their production overcapacities of fossil fuels (such as in Spain with gas supplies), which otherwise would become stranded costs because of the energy transition. At the same time, these fossil fuel-based infrastructure projects set the EU on a long-term emissions path that obscures official concepts such as climate neutrality.



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