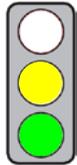


KEY ISSUES

Objective of the Communication: The Commission proposes measures to ensure a secure energy supply in the EU.

Affected parties: Whole economy, particularly energy suppliers and importers, as well as energy-intensive businesses.



Pro: (1) Protecting the energy infrastructure against political influence from non-EU countries is appropriate.

(2) A more competitive internal energy market limits the market power of large energy exporters in non-EU countries and reduces disruptions in supply.

Contra: Aggregating demand of natural gas importers reduces the incentive of Member States to invest in cross-border natural gas transmission systems.

Content

Title

Communication COM(2014) 330 of 28 May 2014: **European Energy Security Strategy**

Brief Summary

► Context and objectives

- The EU imports 53% of the energy it consumes. Energy import dependency amounts to 90% for crude oil, 66% for natural gas and 42% for coal (p. 2).
- The EU is highly dependent on natural gas imports from Russia.
 - In 2013, 39% of EU natural gas imports came from Russia.
 - Six Member States – Bulgaria, Estonia, Finland, Latvia, Lithuania, and Slovakia – derive 100% of their natural gas imports from Russia (p. 2 and Annex 1).
- Disruptions in the supply of natural gas as a result of Russian-Ukrainian conflicts in 2006 and 2009 have highlighted the "need for a common European energy policy" (p. 2).
- A European "Energy Security Strategy" will
 - in the short term, reduce vulnerability to disruption arising from political developments in non-EU countries and
 - in the long term, reduce dependency on individual energy producers, suppliers and supply routes.
- The strategy covers eight "central pillars" in which the EU and its Member States will develop measures, some of which have already been initiated (p. 4). These can be divided into three areas of focus:
 - measures for the avoidance of short-term supply shortages,
 - measures for reducing dependency on the import of fossil fuels from non-EU countries and
 - measures relating to external energy policy.

► Avoiding short-term supply shortages

- Pillar 1: Avoiding disruption to natural gas supplies during the winter of 2014/2015

- In view of the "current events in Ukraine", the Commission wants to take measures, together with the Member States and the operators of gas transmission systems, in order to avoid disruptions in supply in the winter 2014/15 (p. 4).
- The Member States will, with the Commission's support,
 - use "stress tests" to examine the vulnerability of natural gas supply to disruption and, if necessary, increase gas stocks, develop emergency infrastructures and reverse flows and facilitate switching to alternative fuels in the short term;
 - as part of the Gas Coordination Group [Regulation (EU) No. 994/2010, Art. 12; see [cepPolicyBrief](#) and [cepStudy](#)] intensify collaboration with the EU energy agency ACER, the transmission system operators (ENTSO-Gas) and the representatives of the gas industry and consumer organisations;
 - cooperate with natural gas suppliers and transmission system operators to develop further sources for short-term additional supplies – particularly of liquid gas.

- Pillar 2: Coordination of contingency plans and protecting critical energy infrastructure

- The Commission wants to
 - work with Member States to examine preventive action plans and contingency plans in the event of disruption to the gas supply [Regulation (EC) No. 994/2010, Art. 4 et seq.] and coordinate them at EU level as well as
 - propose to Member States and industry new "contingency coordination mechanisms" and "plans to deliver energy to countries in times of need" (p. 6).

- Companies in non-EU countries must not exercise control over electricity transmission cables (Directive on the internal electricity market 2009/72/EC, Art. 11; see [cepPolicyBrief](#)) or gas pipelines (Directive on the internal gas market 2009/73/EC, Art. 11; see [cepPolicyBrief](#)) if this jeopardises energy security in a Member State ("Lex Gazprom"). The Commission calls on Member States to check that this requirement is complied with prior to any purchase of "critical" energy infrastructure.

► **Reducing dependency on the import of fossil fuels**

– **Pillar 3: Moderating energy demand**

- To reduce the demand for energy, Member States will implement the Energy Efficiency Directive (2012/27/EU, see [cepPolicyBrief](#)) and the Energy Performance of Buildings Directive (2010/31/EU, see [cepPolicyBrief](#)) without delay.
- The Commission wants to revise the Energy Labelling Directive (2010/30/EU, see [cepPolicyBrief](#)) and the Ecodesign Directive (2009/125/EC, see [cepPolicyBrief](#)) "to reduce the energy consumption and other environmental impacts of products".

– **Pillar 4: Strengthening of the internal energy market**

- The Commission supports greater coordination of national decisions influencing security of the energy supply such as with regard to support for renewable energy, the decommissioning of nuclear generation and the planning and construction of cross-border energy infrastructure.
- "Competitive and liquid" energy markets protect against abuses of market or political power by individual suppliers and against the disruptions in supply to which they give rise (p. 8).
- In the electricity sector, there will be "speedy implementation" of all electricity infrastructure projects "of common interest" [Regulation (EU) No. 347/2013, Art. 3 et seq.; see [cepPolicyBrief](#)] to meet the target of increasing interconnection of their installed electricity production capacity from 8% to 10% for all Member States by 2020 and to 15% by 2030 (p. 10).

– **Pillar 5: Increasing energy production in the EU**

- According to the Commission, use of renewable energy will save € 30 billion in imported fuel costs. The Commission calls on the Member States to continue deployment of renewable energy sources (p. 13). In order to save costs in this regard, the national support systems [SWD(2013) 439; see [cepPolicyBrief](#); Guidance document on the design of renewables support schemes 2014–2020, ABIEU No. C 200 of 28 June 2014, p. 1 et seq., para. 126; see [cepStudy](#)]
 - will take a "market approach" and
 - be better coordinated at European level.
- The Commission sees additional possibilities for energy production in the EU "from unconventional sources" such as shale gas ("fracking", p. 13). The Member States will streamline administrative procedures and set up a one-stop-shop for permit procedures in relation to these projects.

– **Pillar 6: Further developing energy technologies**

- In order to reduce energy dependency, new technologies must be developed to increase energy efficiency or provide energy storage solutions.
- In implementing the Horizon 2020 Framework Programme for Research and Innovation, the Commission will give priority to supporting the development of energy technologies which increase security of supply.

► **External energy policy**

– **Pillar 7: Diversifying external suppliers**

- Alternatives to Russian gas imports are, according to the Commission,
 - increased natural gas imports from Norway and North Africa,
 - the construction of a pipeline to production areas in the Caspian region ("Southern Corridor") and
 - liquid gas supplies from North America, Australia and Qatar.

– **Pillar 8: Coordinating national external energy policies**

- Member States will improve the coordination of messages and decisions on energy policy in international organisations and fora.
- Together with the Member States, the Commission will develop a "procedure" to "increase transparency" of the natural gas market (p. 19).
- Member States will inform the Commission before starting negotiations with non-EU countries on agreements which may impact energy security and include the Commission in these negotiations. For this, the Decision on setting up a "mechanism" for the exchange of information on intergovernmental energy agreements between Member States and non-EU countries will be amended (No. 994/2012/EU).
- The Commission is considering "voluntary demand aggregation" for gas importers in order to strengthen their bargaining position with respect to exporters from non-EU countries.

Statement on Subsidiarity by the Commission

According to the Commission, energy security issues are often addressed only at national level without taking sufficient account of the interdependence of Member States. It therefore considers that the "key to improved

energy security" lies in coordinating national energy policies and in an EU-wide coordinated external energy policy (p. 3).

Policy Context

The Directive on maintaining minimum stocks of crude oil and/or petroleum products (2009/119/EG) obliged the Member States to set up central storage facilities which would ensure sufficient stocks of crude oil and could introduce countermeasures in case of acute emergency. In reaction to the Russian-Ukrainian gas crisis of 2009, the rules aimed at safeguarding the gas supply were tightened in 2010 – particularly with regard to gas supply standards and protecting critical natural gas infrastructures – [Regulation (EU) No. 994/2010, see [cepStudy](#)]. In March 2014, in the wake of the latest Russian-Ukrainian conflict, the European Council called on the Commission to draw up the present strategy ([Conclusions](#) of 20/21 March 2014, para. 20). In June 2014, it called on the Council "to further analyse other medium to long-term measures" to enhance energy security ([Conclusions](#) of 26/27 June 2014, para. 22). It will take a final decision on this in October 2014.

Options for Influencing the Political Process

Directorates General: DG Energy (leading)

ASSESSMENT

Economic Impact Assessment

Ordoliberal Assessment

The repeated conflicts between Russia and the Ukraine highlight the risks of being too dependent on energy imports in the EU. The final results of the stress tests have to show whether the existing contingencies for coping with a crisis are sufficient or whether they need to be extended.

Protecting critical energy infrastructure from malign influence by companies subject to political control in non-EU states is essential for a secure energy supply. The Commission therefore rightly calls on the Member States to carry out a meticulous examination of agreements relating to the sale of critical EU energy infrastructure to companies from non-EU countries.

Impact on Efficiency and Individual Freedom of Choice

An increase in energy efficiency may reduce the demand for energy and thus also dependency on energy imports from non-EU countries. **The decision on whether it is worthwhile to invest in energy efficiency, however, is best left to private investors themselves** rather than the government because otherwise there is a danger that energy efficiency measures will be brought in with an inadequate cost-saving potential which are therefore uneconomic.

A competitive internal energy market limits the market power which large energy exporters from non-EU countries have over individual Member States as fuels such as natural gas can be freely traded on the internal market. This results in the coordination of energy prices in the EU **and reduces** the danger of politically motivated, business-related **disruptions in supply**.

Electricity produced from renewable energy sources can reduce the EU's dependency on the import of fossil fuels. Conventional power stations, particularly gas power stations, are still required, however, in order to produce electricity at times when, due to weather conditions, it cannot be supplied in sufficient amounts either from wind generators or solar power plants, and facilities for storing electricity are lacking.

Greater diversification of potential natural gas supplier countries may reduce dependency on imports from individual supplier countries such as Russia and thus increase security of supply as, in the event of unforeseen shortages – e.g. due to political tensions in non-EU countries – , it will be possible to switch to alternative sources. However, this requires not only major investment in gas infrastructure in order to link up to other gas exporting countries, but also entails the expansion and modification of gas pipelines within the EU. The construction of plants to secure and convert liquid gas from the USA, Australia or Qatar also increases the number of potential supplier countries because liquid gas, like crude oil, can be imported independently of the existing pipeline network. Such plants are often only operated at a loss, however, because, as a result of the invariably long transport distances and the complex conversion process involved – cooling and regasification –, it is relatively costly and therefore less in demand than natural gas which can be imported via pipelines.

Closer coordination between the Member States on external energy policy may improve the negotiation position with respect to energy suppliers from non-EU countries.

Closer coordination among the Member States on bilateral energy agreements with non-EU countries may prevent agreements which undermine trade in the internal market and **have a negative effect on security of supply**.

Although voluntary **demand aggregation of natural gas importers** in the EU may reduce the dependency of individual Member States on gas suppliers from non-EU countries and thus increase security of supply, it also **reduces the incentive of Member States to invest in the expansion of cross-border gas pipelines**. Expansion of infrastructure is, however, urgently required as it enables Member States to obtain natural gas via several routes which would likewise reduce dependency on suppliers – but on a permanent basis.

Impact on Growth and Employment

The measures proposed by the Commission may increase security of the energy supply. This also has a positive effect on growth and employment, particularly in energy-intensive industries.

Impact on Europe as a Business Location

A secure and reliable energy supply is a material factor for international companies when deciding on a business location. The proposed measures therefore increase Europe's attractiveness as a business location.

Legal Assessment

Legislative Competency

Unproblematic. The EU can take the proposed measures to ensure security of energy supply (Art. 194 (1) (b) TFEU).

Subsidiarity

Unproblematic as cross-border issues are involved throughout. Coordination of measures of the Member States can only take place at EU level (Art. 5 (3) TEU).

Proportionality with Respect to Member States

The proposed measures do not – based on the current evidence – exceed what is necessary in order to ensure security of the energy supply (Art. 5 (4) TEU).

Conclusion

Protecting energy infrastructure from malign influence by companies subject to political control in non-EU countries is essential. The decision on whether investing in energy efficiency is worthwhile, is best left to the private investors themselves. A more competitive internal energy market limits the market power of large energy exporters in non-EU countries over individual Member States and reduces disruptions in supply. Closer coordination among the Member States on bilateral energy agreements with non-EU countries may prevent agreements which have a negative effect on security of supply. Aggregating demand of natural gas importers reduces the incentive of Member States to invest in cross-border natural gas transmission systems.