

A LIBERAL ENERGY UNION

For Europe



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Europe faces a historic challenge, which is shared by all Member States and requires common solutions. Climate change, uncompetitive energy prices and an extremely high dependency on unreliable third country suppliers are threatening the sustainability of Europe's energy system. The EU currently imports more than half of its energy at a cost of some 400 billion euros per year. The recent events at our eastern border have once again exposed our vulnerability. Uncompetitive energy prices have compounded the economic crisis and weakened European industrial competitiveness. Our dependence on energy resources outside the EU has effects on our ability to conduct an independent foreign policy.

All this has made it clear that we must now take a leap forward towards a fully-fledged European energy policy. The time has come for a genuine Energy Union that must deliver a true single market, strengthen energy independence and advance the transition to renewable energy sources. Achieving these objectives will serve as a driving force for the economic growth and job creation that Europe needs.

Putting Europe on a new growth path will require a transformation to a competitive and innovative low-carbon economy with a more efficient use of raw materials and greater energy independence. The Energy Union must simultaneously address our economic and environmental challenges and bring sustainable growth and jobs. Substantial investments in modernising and expanding our existing infrastructures are in any case necessary over the coming years. We now have the opportunity to direct these investments into improved interconnections of our energy infrastructures and into low-carbon solutions and innovative technologies, with little added cost. Regulatory certainty based on a clear political direction is essential to provide European citizens and businesses with secure, sustainable and affordable energy.

The true test of the Energy Union will be overcoming the current fragmentation of energy policy into 28 different systems and reaping the full benefits of a common European approach. We therefore urge the Commission to come forward with bold and forward-looking initiatives and legislative proposals.

The key ALDE objectives of an EU Energy Union are:

- **Security of energy supply**
- **Decarbonisation and long-term sustainability**
- **Affordable and competitive energy prices**

In order to achieve these objectives, ALDE calls for action in the following five priority areas:

1. A Competitive Internal Energy Market

There is today no single market for energy in Europe. Energy is one of our fundamental commodities, and we cannot afford a continued fragmentation of the EU energy market. In fact, a more integrated single market in energy could result in efficiency gains of some 50 billion euros¹.

The interests of citizens and consumers must be at the heart of the Energy Union. Market concentration, regulated prices and other forms of excessive regulation are still standing in the way of well-functioning and efficient energy markets. The cost of these inefficiencies is ultimately borne by the consumers.

Actions:

- **A fully integrated energy grid** - Further efforts are needed to remove bottlenecks and develop interconnections that allow cross border trade and create competitive and well-integrated regional energy markets. Establishing regional smart grids and synchronising electricity systems should be a first step towards a completely integrated European market. A fully integrated grid, linking producers with consumers on a European scale, and combined with diversification of supply, is key to achieving energy security and to lowering prices for consumers. The European gas infrastructure - including LNG terminals - needs to be interconnected and strengthened, and sufficient gas storage facilities built. In addition, a strengthened role of ACER (the Agency for the Cooperation of Energy Regulators) is essential for overseeing the development of EU-wide networks and market rules. Europe's remaining energy islands must be eliminated through the effective implementation of European interconnection targets.
- **Liberalisation of energy markets** - Markets must be fully opened up to free competition, and distortive state regulations must be dismantled, in order to pave the way for a true internal electricity market. This will require stronger EU level regulation of the internal market. An imperative first step is the complete implementation in all Member States of existing rules - in particular the 3rd Energy Package.

¹

European Parliamentary Research Centre, Mapping the Cost of Non-Europe, 2014-2019.

- **Facilitating the energy transition** - Achieving the decarbonisation goals depends on the right market conditions for investment in energy efficiency, renewables and smart infrastructures. We strongly believe that the Energy Union should prioritise market-based instruments for the promotion of low-carbon energy sources as a means to ensure that the energy transition takes place in the most cost-effective and environmentally friendly way. We call on the rapid removal of remaining barriers in the internal market so as to facilitate private investment in smart and super grids that will allow for an efficient balancing of sustainable energy on the net.
- **Ending "subsidy shopping"** - Full internalisation of energy costs and reducing the imbalance between different support schemes and subsidies will contribute to increased competition, to a better deal for industry and consumers, and to the development of the most appropriate technologies at regional level. The Commission should publish guidelines and recommendations to harmonise the various support schemes, subsidies and tax incentives across the EU.
- **Ensure a well-functioning ETS** - The Emission Trading System must be strengthened and improved to ensure that it functions as intended, putting a price on emissions and creating incentives for low-carbon investments. Without a well-functioning ETS, we will again slip back into national measures which fragment the internal market and distort the level playing field. Sectors genuinely at risk of carbon leakage should be supported.

2. Increasing Energy Efficiency and Moderating Energy Demand

The potential benefits of energy efficiency are enormous. According to the International Energy Agency, energy efficiency is the world's "first fuel" by virtue of its lowest cost, availability and sustainability. Reduction of energy consumption through improved efficiency is not only the most effective means of increasing energy security and reducing energy costs, it is also essential for achieving our climate targets. Energy efficiency will play a key role in delivering the long-term EU goal of reducing emissions by 80-95% by 2050 in a cost-effective way. As a stepping stone towards this target, the EU must remain committed to its unconditional target of at least 40% emission cuts by 2030.

Actions:

- **Lowering costs and empowering consumers** - Strengthening the energy labelling, energy performance and energy efficiency legislation will stimulate innovation, and allow consumers to choose the most efficient products. Improved energy efficiency in products does not only lower the energy bills, it will also reduce emissions and dependency on third countries. Energy labelling must be further developed to enable and encourage informed consumer decisions.

- **Harnessing untapped potential** - Introducing measures to moderate demand will improve the energy balance on the net and lower overall system costs. Particular attention should go to the huge untapped energy efficiency potential lying with buildings and transport. Smart technologies and ICT must be supported as they will play a crucial role.
- **Boosting investments and competitiveness** - Strengthened energy efficiency targets, including moving to an ambition of 40% by 2030, will increase non-ETS industrial efficiency innovation and thus serve to re-launch the European economy, by boosting the building sector and driving investments necessary to make EU manufacturing industries and SMEs more competitive. Energy and resources often represent 20 to 50% of overall production costs for the manufacturing industry. Energy prices in Europe, measured per unit of electricity and gas, are likely to remain higher than in major competitor countries like the US or China; therefore, the only way for the EU manufacturing industry to stay cost-competitive is to lead the world in resource and energy efficiency.

3. Strong European Governance

Europe needs common answers to the common threats that affect our economy and future wellbeing. The Energy Union must collectively secure energy supplies, based on normal market mechanisms and underpinned by business transparency, and where needed with the use of particular solidarity and security measures (e.g. regarding storage and reverse flows). A strong European governance system is required to create investment security for the cost-efficient deployment of renewables and energy efficiency measures. More and better coordination of national energy policies will allow the Energy Union to profit from increased physical and economic integration.

Europe should adopt an assertive energy and climate diplomacy. The Energy Union should enable us to negotiate as one single block with third parties and to speak with one voice.

Actions:

- **Strong governance through an "Energy Pack"** - Modelled on the economic governance framework, an *Energy Pack* will ensure Member States' adherence to the rules of the game. As with economic governance, those who fail to live up to their obligations undermine European solidarity and make us all vulnerable as a result. The Commission must monitor and strictly enforce the rules to ensure a properly functioning Energy Union.
This governance system should include a streamlining of Member States' reporting on energy and climate issues in order to ease the regulatory burden, guarantee policy coherence and ensure that agreed policies are implemented effectively.

Member States should be obliged to cooperate on the planning of new infrastructure projects for oil and gas and ensure that such projects are compatible with the EU energy security strategy.

A collaborative approach between Member States must be a priority. No action or inaction by one MS should jeopardise the energy security of another Member State, nor of the EU as a whole. Therefore Member States' planning and reporting should be done in close co-operation with neighbouring EU countries.

In the context of the 2030 framework for climate and energy, the Commission must be given a strong role in following up on Member States' national targets and policies to guarantee that the goals set by the EU are met and all countries provide their fair share.

- **Strict enforcement of existing legislation** - The Energy Union must ensure a balanced alignment and convergence of national energy policies. A first condition is the full implementation of existing rules regarding the internal market and energy and climate policies. Strict enforcement of common rules will safeguard the solidarity and resilience of the Union. The Energy Union should encourage and incentivise regional cooperation and direct EU funds only to those projects which support our common objectives. The European Energy Security Strategy and its implementation should also be regularly monitored and updated.
- **Ensuring a democratic process** - A strong governance framework must respect the EU Treaties and should therefore be based on co-decision between the Council and the European Parliament. In order to prevent the renationalisation of energy policy, future proposals should continue to be based on the normal legislative procedure.
- **Strengthened external action** - Extending energy infrastructure (incl. reverse flows) as well as energy governance legislation into the European Energy Community, which engages the countries of the Western Balkans as well as Ukraine and Moldova, will contribute to greater stability and an improved investment environment in EU's immediate vicinity. Launching negotiations on EU energy agreements with third countries would give the EU a stronger voice on the international stage, and would create the necessary framework for projects that can enhance Europe's energy security, in particular large scale investments in transnational infrastructures projects.

4. Research and Innovation drive the change

Research, science and innovation are essential for a swift transition to a low carbon economy and for the competitiveness of European companies. Internationally, the EU should remain a leader in climate action. Maintaining our strong position in innovative clean technologies will present substantial economic opportunities as other major economies take action to decarbonise. Continued

progress in low carbon innovation is vital for the future of Europe's industrial sector and can make the Union world leader in renewables.

Actions:

- **Enhanced cooperation** - A Europeanisation of energy infrastructure, standards, research and innovation is needed and innovation efforts have to be managed effectively. Horizon 2020 and the SET (Strategic Energy Technologies) Plan have already proven their merits, though there is a need to target existing funding more effectively and to align innovation activities, in particular with the SET Plan. Priorities should include energy efficiency, renewable energy technologies, and energy storage.
- **Support for pre-commercial stage** - Sufficient support should be provided for projects at the pre-commercial stage. The biggest gap is currently at the pre-commercial demonstration stage where action at the local level can bring early market adoption, and further upscaling at the EU level can lead to economies of scale. Therefore, the role of government procurement should be to favour the early adoption of new technologies.

5. An Energy Investment Union

"*The Trillion Euro Question*" - Europe needs at least €1 trillion in investments over the coming years to revitalise the economy and complete the recovery from the economic crisis. 99% of this finance must be private, encompassing large investors and funds, as well as individual consumers and citizens.

The single biggest barrier to such investment is regulatory uncertainty: with national and Union policy frameworks changing almost constantly, there is not enough certainty for investors, and investments are delayed.

Actions:

- **Ensuring that the Juncker plan delivers** - There are lots of relevant projects out there that can strengthen energy independence and efficiency, but we need to make them bankable so that private investors can come in. Special attention needs to be given to ensure that the Juncker plan is unbureaucratic and speedy so that the capital provided can get to work.
- **Ensuring investor certainty** - Strengthened governance at the EU level must comprise a clear, coherent long term plan for energy, encompassing the associated regulatory framework, environmental legislation, competition policy, and subsidy regimes - harmonised and fully implemented across all Member States.
- **Delivering affordability for consumers** - By creating a framework that empowers consumers and makes them active participants on the market - as investors/stakeholders through consumer financial participation, energy cooperatives, micro generation and feed-in schemes - domestic

energy prices can be reduced, and serious social problems such as fuel poverty can be addressed through liberal market driven solutions.

- **Building a competitive environment for business** - Ensuring a secure and stable regulatory and investment environment will allow industry to adopt the most efficient technologies and the most innovative solutions with which to compete with rivals in developing economies. Public private partnerships will also play a key role and will contribute to investor confidence.
- **End environmentally harmful subsidies** - Environmentally harmful subsidies should be identified and phased out urgently. We must avoid using our scarce public money twice, first for supporting polluting practices and later for cleaning up.