



The EU Energy Union: TABC Perspectives

The Trans-Atlantic Business Council welcomes the European Commission's proposal for an Energy Union, which offers a holistic approach to EU Energy and Climate Policy. The viability of the Energy Union requires that all three elements of the energy and climate framework - sustainability, security and competitiveness - are balanced.

We also welcome the commitment of the Juncker Commission to take action for "better regulation". For the energy sector, this could be summarized in two critical aspects: better coordination and regulatory clarity. The energy sector is capital intensive, as it requires significant long term investments, which can only be attracted with the certainty of a level playing field, clear and long-term regulatory framework.

In this paper, TABC members would like to offer their views on the main challenges that the Energy Union will have to face in the coming years: (1) ensuring security of supply; (2) completing the internal energy market; (3) delivering on climate commitments.

1. Security of Supply

We believe that there are cost-effective ways to support security of supply, namely increased diversification of routes and sources, a boost in domestic conventional and unconventional production, and the completion of the internal energy market. We welcome the emphasis from the European Commission on the necessity for diversification of routes and sources. Increased dialogue with Europe's external suppliers would also strengthen security of supply.

Yet European efforts to increase EU energy security should not merely focus on its external relations. Completion of the internal energy market, particularly further physical interconnection, is essential for ensuring security of supply. A well-functioning EU energy market (of 500 million consumers) would make EU commercially attractive to suppliers. Furthermore, domestic conventional and unconventional resources have the potential to boost domestic production, while generating important tax revenues, maintaining highly skilled jobs at Member State level and spurring economic growth. It is therefore essential to encourage the exploration and production of these resources at a local level.

In order to ensure security of supply, the EU should continue to diversify its energy mix and should also encourage the use of those fuels, such as natural gas, that provide flexibility in the power system. This would allow Europe to reach its sustainability targets while guaranteeing system reliability by balancing the intermittency of renewable energy sources.

2. Internal Energy Market (IEM)

The internal energy market currently suffers from different levels of implementation of the European legislation and a severe lack of interconnections across Member States. Targeted actions and investments in these areas would drive greater market integration and hub liquidity, thus facilitating solidarity mechanisms among Member States and enhancing Europe's security of supply. With this regard, the foremost priorities for the EU are therefore to:

- i. Complete the internal energy market through full implementation of the current legislative framework by all Member States, including the Third Energy Package and the Network Codes.
- ii. Ensure a clear and long-term legislative framework, with limited regulatory barriers. This would attract the investments needed to develop the most critical physical infrastructure, including interconnection. In this regard, the TABC welcomes the initiatives of the European Commission aimed at promoting electricity and gas infrastructure projects, such as the lists of Projects of Common Interest.
- iii. Ensure that renewable energy sources are properly integrated into the market.

3. Climate Change

The EU is a leader in climate action but its ambitions are currently negated by increased use of coal. In addition, the price of EU Emissions Trading Scheme (ETS) carbon credits is currently low due to a large surplus of allowances, in part because of the impact of the recent economic crisis on demand but also due to overlapping measures, such as support for renewable electricity. The EU should continue to examine and make use of the most cost-effective approaches for meeting GHG reduction targets, particularly in the power sector by reducing the use of coal/lignite in the energy mix and promoting alternative and cleaner sources, such as natural gas and renewables.

One key element in attaining this objective is a revised EU Emissions Trading System (ETS) as the best market-based available solution to effectively lower carbon emissions. But effects on industry have to be considered carefully. Europe's unilateral action risks having little impact on global emissions, but could severely compromise our region's future growth and prosperity. TABC members are seeking reassurance, taking into account the elements of any future international agreement, that the provisions for carbon leakage in the ETS Directive will be extended beyond 2020 when qualifying installations will be receiving far fewer allowances than they do today.

From a broader perspective, it is vital for the EU to maintain its leadership role in the fight against climate change at a global level, most notably at the UN COP21 Conference in Paris this year. TABC members believe that an international agreement – inclusive of both developed and developing countries – is the only way to couple effective action against climate change with growth and industrial competitiveness. It would pave the way for a real level playing field for the industry by eliminating one of the main causes of carbon leakage: uneven policy objectives.