

# Searching for an Energy Union

With Jean-Claude Juncker's announcement to make energy policy one of his priorities as EU Commission President in 2014, the creation of the so-called "Energy Union" has begun. During the last twelve months the Commission has tried to identify ways and means of turning this vision into reality.

by Severin Fischer

Very few figures in the Brussels scene know the functioning of the EU better than Jean-Claude Juncker. For decades, the new elected Commission president has learned the recipe for a successful agenda-setting strategy. In that context, four simple ingredients are needed: a problem, a salesman, a story and a vision. Within a couple of months, Juncker managed to bring all of this together and implanted the "energy union idea" into the head of everyone dealing with energy issues inside and outside the EU. The energy union has become the new talk in town despite the fact that very little has changed since.

Juncker has always been ambivalent in describing the real problem that he considered important enough to warrant initiating such a project. A mixture of Europe's well known fossil fuel dependency, the proclaimed "losing track on renewable technology development" narrative, national energy policy egoisms and unsatisfactory results from policy negotiations merged to create a problem scenario. Clearly, the definition of challenges surrounding EU energy and climate policies was not a difficult task, since hardly anyone would describe the policy field as exemplary for the success of EU integration right now. With the

installation of Maroš Šefčovič as a Vice-President for the energy union, Juncker also found the right person and a well-functioning institutional set-up to temporarily bridge the conflict between the more security and market-oriented energy policy community and the world of think tanks and NGOs that surround the EU's climate and environment scene. Due to his origin as a Slovak diplomat, Šefčovič understands the sentiment of Central and East-

## KEY POINTS

- The EU Commission has managed to introduce the idea of an "Energy Union" as a new term for integrating energy security, internal market and climate policies
- So far, the energy union is more about stopping fragmentation than about developing new policies
- Election outcomes in some EU member states will lower expectations about big legislative changes in the coming months
- The internal market for electricity and gas remains the core of the EU's energy policy and will need more protection from distorting national regulation

ern European member states. He knows the traps of EU policy-making since he served five years as commissioner responsible for inter-institutional questions. Finally, he doesn't have a problematic background in the field of energy policy, as his fellow commissioner Arias Cañete did with his involvement in the oil business. Consequently, Juncker positioned Šefčovič as "Mr Energy Union". Šefčovič serves as the face of the energy union and fulfils his duty by selling the EU's project to governments, companies and people in capitals worldwide.

The story behind, and the vision of the energy union, however, differ quite drastically according to the venue such conversations are taking place at. While the market integration and ambitious climate policies are regular topics in Brussels and Western European capitals, diversification of supplies and the extended use of domestic sources are more often mentioned in Warsaw and Bucharest. Despite these locational differences, a common line to all talks is the "strong political momentum" that has been built behind the energy union. This is an observation that is hard to prove, looking at the low number of factual agreements Brussels has seen over the last couple of months in the field of energy and climate policy.

After following the debates around the energy union and analyzing proposals and conclusions of EU institutions, so far, five relevant but preliminary assessments on the status of the energy union can be made.

### Energy Security is back on the agenda

The content of energy policy debates in the EU has significantly changed over the last twelve months. The dependency on fossil fuel imports, mainly in the import of natural gas, has received higher political salience. There are two main reasons for this development: The Russian aggression in the Ukraine and the difficulty to renegotiate gas deliveries to and via the Ukraine have raised concerns and brought the topic back on the agenda. The call for more diversification and an analysis of the supply situation were direct consequences from this change in the geopolitical environment. A second cause for a growing securitization of energy policies can be found in the Commission's aim to bring Poland and other Central and Eastern European member states back in a constructive debate on a whole range of different policy issues on the EU's legislative agenda. Proposals such as the creation of gas buying cartels in the EU or increased transparency and Commission involvement in intergovernmental and commercial gas contracts with foreign suppliers are more seriously considered nowadays. This has also served as an answer to the accusations about a supposedly overwhelming "decar-



A technician works on an electrical power pylon during the maintenance of high-tension electricity power lines in Epinoy, near Cambrai, France, October 27, 2015. *Rossignol/Reuters*

bonization agenda" which the EU has conducted during the preceding years. Energy security therefore serves as a vehicle to bring all governments back into a serious debate about all aspects of the policy field, such as the climate and energy policy framework for 2030, new governance structures and the Commission's influence on national energy strategies.

### The Energy Union will not be a geopolitical actor

From the very beginning on, the energy union was meant to symbolize internal unity to the outside world. The Commission's vice-president was supposed to be more than the bureaucratic administrator of an incoherent EU energy and climate policy. In the vision of many supporters of the energy union idea, he should be the high-level representative of the EU's more political energy union, whose tasks also include negotiations about energy relations in the EU's neighborhood and in global energy affairs. And so far, Commissioner Šefčovič has indeed turned out to be the Energy Union's voice.

The improvement of the EU's weak representation in international energy relations deserves merits. However, it often leads to misinterpretations around the Commission's function in this context. The EU is neither signing pipeline-deals with outside suppliers, be it autocratic governments or national state companies, nor has it a direct influence on quantity and origin of fossil fuel imports into the EU. This misunderstanding is still alive in the foreign and security policy community of some member states. The reality is, that the Energy Union might be able to improve framework conditions for trade or serve as a transmitter for the EU's climate policy ambitions. To decide which pipeline project will be finalized and how supply contracts are defined is among the responsibilities of oil and gas compa-

nies that will at the end also take the risk for construction and delivery. The less politicized task of guaranteeing fair competition and a regulated access to pipelines is the major role of the Commission in that matter. A role that has proven to be a powerful form of pipeline-politics in the past, looking at the South Stream case in Bulgaria.

Therefore the Commission will have to be self-restrictive in the definition of the energy union's international dimension. If not, the Commission is running in danger of once again raising expectations about the EU's powers that it cannot and maybe even should not meet.

### The legislative battle is only about to start

All that has been said and written about the energy union remains largely theoretical as long as the Commission's legislative work program has not even started yet. Until now, the new Commission has not experienced the difficult debates with policy-makers in the European Parliament, among member state governments and in the energy policy community in Brussels. Despite some minor changes to existing laws, the legislative machinery was in a standstill during 2015. This also means that the constantly emphasized and wondrously emerging political momentum for EU action will go through a reality check very soon. The difficult negotiations during the meeting of the 28 heads of state and government in the European Council of October 2014 on the EU's climate and energy targets for 2030 have created many question marks. Still unclear is the future role of the Commission in national energy planning, the binding nature of renewable energy policies and targets as well as the question of regional cooperation. So far, the policy debates have not progressed compared to the pre-energy union time of 2014. The real status of the energy union depends strongly on the future legislative output of its institutions.

### Bad time for compromises

While the topics for the policy debate have not changed fundamentally over the course of the last year, the actor constellation has done so. The European Parliament elections of 2014 have opened the doors for more nationalist and conservative powers, changing constellations compared to past settings. A constructive majority for a "forward-looking climate policy", as Commissioner Šefčovič is constantly referring to, is more difficult to achieve than in 2008/09 when the last major legislative package was decided. Similarly, the prospect of agreement among member state governments has not improved. The UK's conservative government of Prime Minister David

Cameron got rid of its liberal coalition partner that was advocating pro-European and pro-environment positions in most debates. There is now little hope for introducing binding targets through the back-door and against the will of London's (energy) sovereignty seeking government. Even more trouble is to be expected from the new Polish government asking for renegotiations in the 2030 framework, where a political compromise had been settled in 2014. It would be too simple to explain problems around compromising just with two member states being skeptical about more EU intervention. Especially smaller states in Central Eastern Europe are also fearing competitive disadvantages by EU-orchestrated and climate-policy-oriented approaches in the energy sector. If there ever was a political momentum for the energy union, it will be desperately needed during the debate for a new governance system in the EU's energy and climate policy.

### The Energy Union's main task: Make markets work

If all four assessments described above turn out to be correct, the EU Commission's main strategic aim for the second year of building an energy union should be on protecting the core elements of EU energy policy. This has been in the past and will most likely be in the future: the functioning of the internal markets for electricity and gas. However, keeping markets open and guaranteeing free competition is by far not an easy task.

On electricity markets, the EU is right now observing a trend towards more political intervention by member states and market distortions that are endangering some

#### FURTHER READING

##### **Energy Security and Natural Gas Markets in Europe. Lessons from the EU and the United States** *Tim Boersma (Routledge 2015)*

The author of this monograph looks at the functioning of the EU's gas markets. He argues convincingly that the creation of this market has helped the EU to deal with energy security challenges in the past.

##### **Limits of an "Energy Union". Only pragmatic progress on EU energy market regulation expected in the coming months** *Severin Fischer and Oliver Geden (SWP Comment 2015)*

This short analysis describes the evolution of the Energy Union idea and the prospects for further policy-making.

##### **A liberal actor in a realist world. The European Union regulatory state and the Global Political Economy of Energy** *Andreas Goldthau and Nick Sitter (Oxford University Press 2015)* A profound assessment of the EU's internal dynamics in energy governance and the changes in the global energy landscape. The authors critically examine the liberal market approach of the past years and ask for a strategic adaptation in the EU.

achievements of the past, such as market coupling and cross-border trade. For reasons of supply security and technological choices, member states started to install different national capacity mechanisms and national support mechanisms for renewable energies. This has made electricity flows across borders become more unpredictable and resulted in a situation in which state interventions undermine the functioning of wholesale markets. With the Commission's sector inquiry into national capacity mechanisms and with the upcoming proposal for a new market design, these topics will be addressed and might force member states to consider supply security and technology support in a more European sense. It will also be necessary to settle regional disputes such as those between Germany, Poland and the Czech Republic about unpredicted electricity flows.

Even more important is the improvement of the internal market for gas. Taking up many of the floating energy security concerns, it will not be sufficient for the Commission to fall into geopolitical activism. Within a liberalized gas market, the Commission will need to watch for the compliance with competition law on the one side and the support of targeted investments in those intra-EU infrastructure measures that offer more flexibility for new imports and face market barriers such as LNG terminals or some interconnectors on the other side. This also includes the planned revision of the security of gas supply regula-

tion and the improvement of emergency response mechanisms. If the Commission concentrates on the foreign policy dimension instead, it runs into the danger of being undermined by market actors taking different investment decisions. The trend towards a political securitization of international energy relations in the gas sector will not bring an added value to the consumer needs of the EU.

The new EU Commission has successfully managed to stop a process of erosion inside the EU's energy and climate policy by proposing and advertising the concept of an energy union. However, this was not a move made during a situation of strength, but rather an act in a moment of crisis. Under unfavorable framework conditions, protecting the achievements of the past decades of market integration and trying to figure out how much transformational power is left, should gain first priority. A realistic assessment of what the EU can politically achieve should therefore be a constant task of policy-makers in Brussels.

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