

Economics in Brief



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More Europe! On the road to Energy Union

Author: Dr Caroline Dieckhöner, phone +49 (0)69 7431-3854, research@kfw.de

With its planned Energy Union package, the European Commission is pursuing comprehensive reforms to the European energy system, with the aim of “making energy more secure, affordable and sustainable”.

Background

The EU is the world's largest energy importer. It imports 53% (EUR 400bn) of the energy it consumes. Six member states – in central and southern Europe and in the Baltic region – obtain all of their natural gas from Russia.

Energy prices affect the ability of energy-intensive industries to compete – even the low wholesale electricity prices in the EU remain 30% above those in the USA. Wholesale prices for gas are more than twice as high.

Although there are specific standards covering the whole of the EU's energy market, each of the 28 EU countries is responsible for its own autonomous energy policy. That is why the European Commission is seeking to push ahead with a single European energy and climate policy as part of the Energy Union. Specific packages of measures and legislative proposals are expected to follow over the next few years.

What are the plans?

The Energy Union encompasses five key areas where action is to be taken:

- Increasing security of supply
- Integration of the domestic EU energy market
- Increasing energy efficiency and reducing energy consumption
- Reducing CO₂ emissions
- Promoting research and development (R&D) to drive forward innovation

More Europe!

Cross-border cooperation between countries and coordinated energy markets increase supply security and lead to cost efficiencies. Europe's electricity and gas supply should be as integrated and flexible as possible, using the most cost-effective combination of production sites and methods of transport to the demand regions.

According to the European Commission, a fully integrated internal energy market could achieve economic benefits of between EUR 16bn and 40bn a year. By increasing competition in the internal EU market, the Energy Union therefore also supports the goal of achieving climate policy goals in a cost-effective manner.

The challenge: diverging interests

EU member states' national energy policies are very diverse – both in terms of countries' choice of energy mix and in respect of their policies on renewable energy or the introduction of capacity markets for electricity. This also reveals how countries structure their energy supply in terms of different sources (see Graph). When it comes to nuclear energy, for example, there is a clear split within the

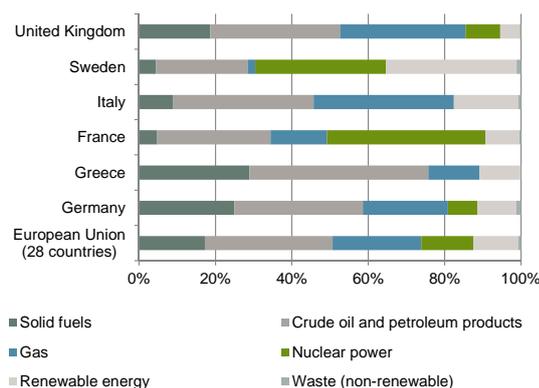
EU: In certain countries (France in particular), nuclear continues to play a crucial role and additional nuclear power stations are under construction. In contrast, half of the 28 EU countries use no nuclear energy at all. Germany, Spain and Belgium have all opted to withdraw from nuclear power.

What is the way forward?

Given the diversity of member states' energy policy interests and the wide range of elements that make up the Energy Union, it is hard to foresee any consensus on concrete action for some time to come. However, France has recently adopted a legislative package aimed at reducing reliance on nuclear energy, developing more renewable energy sources, increasing the rate of building improvements and concentrating on electromobility. This could be the first step for Germany and France to work together to drive forward a transformation of energy policy in Europe.

If it is to take account of member states' differing priorities, the Energy Union will have to be implemented step by step. The focus should be on individual measures that can be implemented quickly and for which the political will exists. This might involve increasing the security of the natural gas supply and further developing transmission infrastructure and markets so as to create an integrated European energy market. It could also include efforts to increase energy efficiency and provide support for R&D. ■

Graph: Gross domestic energy consumption by fuel type in 2013



Source: Eurostat.