ZEP Advisory Council 59
5th June 2019

Agenda Item 6: Overview of European Parliament, Council & other relevant activities

Energy Union – Fourth State of the Energy Union

9th April: Release of the fourth report on the State of the Energy Union.

The State of the Energy Union report and associated documents largely summarises the legislative and non-legislative policy achievements of the Juncker Commission, admitting that some work remains ahead.

In particular, it states that the Member States will have to intensify their efforts to meet the 2020 energy efficiency target and 2030 renewables target. Of particular interest, the Commission states that:

- Reform of the ETS has significantly helped boost the price signal in the ETS, the Commission notes. This is in particular due to the Market Stability Reserve (MSR) kicking-in in January 2019, increasing the carbon price and resilience to major shocks. The MSR will continue to have a significant influence on the carbon price, likely either maintaining or increasing the price of CO_2 for the next decade to come.
- In terms of 'new ways to support research and innovation', the Commission notes the upcoming launch of a co-investment fund with Breakthrough Energy, a coalition of companies and institutions including Total, Engie, National Grid and others, aiming at developing partnerships to build new low-carbon technologies. It refers to industrial CCS and Bio-CCS in its technologies landscape.
- In a specific mention of hydrogen in the report, the Commission refers to an important role for hydrogen in *"both addressing the needs for large-scale/interseasonable energy storage and optimising the overall energy system through sector coupling. Hydrogen can support the decarbonisation of gas infrastructure, transport, and energy intensive industries."* CCS is referenced in a footnote on the seven building blocks proposed in the Commission's vision on the long-term strategy.

Long-Term Climate and Energy Strategy

4th March: Energy Council Discussion on Commission's LTS:
These were only preliminary discussions and most ministers chose to focus on their specific issues of interest, rather than discussing the level of ambition of the strategy and the actual decarbonisation scenario to choose.

Various countries highlighted the importance of hydrogen, often in combination with natural gas (Poland, Germany, UK, Austria, Netherlands, Portugal, France, and Belgium), with Austria highlighting the upcoming IEA report on the issue. Countries such as Belgium and the Netherlands explicitly linked their references to hydrogen with CCS and CCU. Finland stressed that CCS should

not be forgotten, while the Czech Republic also mentioned CCUS. The UK only mentioned CCS for energy intensive industries.

5th March: Environment Council Discussion on the Commission's LTS

Most Member States expressed their support for the vision and reiterated their main messages as previously expressed at the Energy Council.

There was a consensus on the need for the EU to act in cooperation with third world countries and to maintain its role as a leader in the wake of the September UN Climate Summit. But also to the freedom of Member States to choose their energy mix and the necessity to preserve technology neutrality in regulation. Ministers further agreed on the need for a just transition and the importance of consistency amongst all policy areas at national and EU level.

22nd March: EU Leaders Discussion on the Commission's LTS

They discussed whether to back the scenario of climate neutrality by 2050.

In the final conclusions; *"[The European Council] calls on the Council to intensify its work on a long-term climate strategy ahead of a further discussion in the European Council in June 2019*." The conclusions referred nonetheless to the Paris Agreement's objective of limiting global warming to 1.5°C, despite initial opposition by several Member States including Germany, Poland, Hungary and the Czech Republic.

The EU Commissioner for Energy and Climate, Miguel Arias Cañete, reaffirmed that the Commission will "*keep pushing" for a climate neutral EU by 2050*". Many NGOs reacted strongly to the conclusions. Ahead of the meeting, a Coalition for Higher Ambition had published an open letter to the Heads of State, calling upon them to "*endorse the objective of net-zero greenhouse gas emissions by 2050 at the latest*".

9th May: Informal Summit of European Leaders to debate the Future of Europe, Romania

The Sibiu Declaration agreed by the leaders of member states in attendance consists of 10 commitments that the leaders will move forward in supporting the EU. It however only mentions tackling climate change as part of combating major global issues. President Juncker stated that while he views a 2050 climate neutral target favourably, he argued for the EU to focus on more urgent actions to reach the 2030 climate goals.

On the other hand, nine Member States (Belgium, Denmark, France, Latvia, Luxembourg, the Netherlands, Portugal, Spain and Sweden) signed a non-paper on climate in the margins of the informal Summit. These countries have expressed support for the following points:

- Achieving net-zero emissions by 2050 and support for the Commission's draft Long-Term Strategy on EU energy and climate policy, stressing the urgency of acting on climate change now.

- The EU should develop new low-emission industries through R&I and markets that will strengthen European competitiveness in a global climate neutral future.
- In the ecological transition, industry becomes an important strategic ally. EU industry is essential to seizing the opportunities of this transformation to enhance EU position as a major industrial powerhouse.
- The new MFF has to strongly support decarbonisation, and these Member States highly support the Commission's MFF target of spending 25% of EU funding towards combating climate change.
- Strong support for sustainable finance. The non-paper floats ideas such as reforming the European Investment Bank to make green financing its top priority and promote investment in energy and climate transition, as well as enhancing transparency of climate-related risk activities by tracking of climate-related investments and GHG gas and carbon accounting.

The Council process on the Long-Term Strategy is set to continue at the 20-21 June Summit, where the leaders are expected to adopt dedicated Conclusions. The Energy and Environment Councils of 25 and 26 June would be left in reserve for further discussions on the long-term strategy should that prove necessary.

Next steps

- 28 May: Special European Council Summit.
- 20-21 June: European Council Summit to agree nomination and the Strategic Agenda.
- 25 June: Energy Council to continue discussions on long-term strategy if needed.
- 26 June: Environment Council to continue discussions on long-term strategy if needed.

Horizon Europe

18th April: EU institutions adopt partial deal on Horizon Europe

The EU institutions reached a political agreement on the Horizon Europe proposal, also known as the 9th R&D Framework Programme. The text of the deal was approved in the last Plenary on the 18th April, yet the final budget and the specific cluster allocations are still subject to negotiations on the EU's new Multi-annual Financial Framework (MFF) for the period 2021-2027.

In the Horizon Europe framework Regulation, the Commission has proposed a total budget of €94.1 billion for the programme, which will have to be fully confirmed as part of MFF negotiations.

It is structured into three pillars. Importantly, the second pillar "Global Challenges and European Industrial Competitiveness" includes two so-called clusters of particular relevance: Cluster 4 - Digital, Industry and Space [€15 billion]; and Cluster 5 - Climate, Energy and mobility [€15 billion].

The Commission will now start preparing the implementation of Horizon Europe to make sure that the first draft work programme is published in time for Horizon Europe's launch on 1st January 2021.

Next steps:

- Q3-Q4 2019: EU institutions to finalise negotiations on next MFF.
- 2019-2020: Commission to prepare first calls under Horizon Europe.

Industrial Strategy – New Industrial Policy

The European Council at its meeting on 22nd March called on the Commission to present by end-2019 *"a long-term vision for the EU's industrial future, with concrete measures to implement it. It should address the challenges European industry faces, touching upon all relevant policy areas".*

DG GROW has been working on their 2030 vision document on industrial policy in parallel, notably through the High Level Industrial Roundtable "Industry 2030" expert group, which first met in February 2018, and a new High Level Expert Group on Industry. The Industry 2030 group was established to provide feedback on the Commission's initiatives and actions for a smart, innovative and sustainable industry, to:

a. Build on existing groups that cover specific technology areas and are linked to Union initiatives in the area of industrial policy, including the reports and analyses they produce; and
b. To reflect on future targets to measure the performance of Union industry and propose medium- and long-term objectives, among other objectives.

The 2030 vision document for a new industrial policy is expected to also highlight a number of strategic value chains focused on connected automated vehicles, smart health, low-carbon industry, hydrogen technology, and cyber security.

Infrastructure – Connecting Europe Facility

13th March: EU institutions reach common understanding on Connecting Europe Facility

The EU institutions agreed to extend the Connecting Europe Facility (CEF) Programme, which will continue to fund projects in transport, digital and energy over the 2021-2027 period. The CEF Regulation will be officially adopted once the new Parliament is elected and the negotiations on the EU's new multi-annual financial framework (MFF) are finalised.

The adoption came ahead of the 2019 CEF Energy call for proposals launched on 20th March. The call focuses on funding to support cross-border energy infrastructure projects in areas such as cross-border electricity, gas and CO_2 networks. To be eligible, a project will already have to be designated as a Project of Common Interest (PCI) first. The Commission will release a total of €750 million as part of this call, with a deadline for submissions on 13th June 2019.

For the new CEF in the 2021-2027 period, emphasis is placed on the synergies between the three areas, especially in the case of connected and automated mobility and alternative fuels infrastructures for all modes of transport. Cross-sectoral work programmes are expected to be adopted to support this goal. Most of the funds from the Facility will be allocated to transport projects, but the Facility will also fund energy projects, focusing on market integration.

In addition to committing 60% of the new CEF to climate action, 100% of investments into infrastructure such as CO_2 transportation projects and 40% of funding into gas infrastructure projects will have to contribute to climate action. Furthermore, a new criterion will be added to the selection process: consistency with Member States' National Energy and Climate Plans (NECPs). The overall aim is to encourage decarbonisation of the energy sector.

Closely related, the Commission will also evaluate the consistency of the Regulation on trans-European energy networks (TEN-E) with EU energy and climate targets by 2020. This will be part of its effort to pursue the mainstreaming of climate action.

Infrastructure – Future Energy Systems in the EU

1st-2nd April: Council begins considering draft conclusions on future energy systems

In early April, Energy Ministers attended the Informal Energy Council organised by the Romanian Presidency of the Council in Bucharest, Romania. The outcome of the meeting is summarised in the draft "*Conclusions on the Future of Energy Systems in the Energy Union designed to ensure the clean energy transition and the achievement of energy and climate objectives towards 2030 and beyond*".

The draft underlines the need for the development of cost-effective energy networks, modernisation of energy systems through the promotion of innovative technologies, digitalisation and sector integration. It also emphasises that substantial investments will be needed in both the electricity and gas sector, as well as adequate EU financial support and a predictable investment framework, in order to incentive the creation of future energy systems.

Importantly, references to carbon capture technologies have been included. There had been an initial direct reference to CCS and CCU, yet Austria, Sweden, and Luxembourg were adamantly against CCS. The current reference to carbon capture technologies will very likely remain in the finalized text despite some opposition. The current text reads as follows: *ACKNOWLEDGES* ***that carbon capture technologies may play a role for decarbonisation beyond 2030****, especially for the mitigation of process emissions from industrial processes, for the Member States that choose this technology will have to be respected.*

Furthermore, there are references to renewable hydrogen, but blue hydrogen does not feature. However, it calls upon the Commission to undertake an analysis of sector coupling technologies, including hydrogen, mainly looking at regulatory and market barriers, and to propose initiatives to improve the functioning of the electricity and gas markets. Lastly, the text now also includes a call to step up global efforts to tackle climate change in light of the IPCC report.

The conclusions are expected to be adopted by the Ministers at the 26th June Energy Council, after extensive internal debates over the course of next two months between EU Member States.

Next steps:

- 12 June: COREPER to approve the Conclusions.
- 25 June: Energy Council.

Sustainable Finance – Green Taxonomy

23rd May: Member States discuss Taxonomy proposal at working party level

On 23rd May, the Financial Services Council met to discuss the Taxonomy proposal. EU attachés considered amongst others a Romanian Council Presidency revised text on the proposal.

Of particular interest, the Presidency proposal suggests that investments are to be considered environmentally sustainable when the economic activity pursues an environmental objective and/or *"enables another economic activity to improve its environmental performance."* It is not clear yet how other Member States view this proposal. The Council meeting also highlighted the proposal's lack of clarity on equity investment: when is this labelled sustainable and when is it not?

Overall, it shows that Member states are pushing for a greater say in the work of the technical expert group (TEG). There is a fear that the complexity of the Regulation would end up killing the market before the criteria are even applied. At the same time, the Commission is already pushing for internationalization of the initiative to potentially begin in the autumn.

Next steps:

- 14 June: ECOFIN Council.
- 18 June: TEG interim-report expected to be published.
- 24 June: Commission to organise stakeholder dialogue.
- End-June (tbc): Commission expected to launch consultation on report.
- Autumn (tbc): Launch of plurilateral discussions on 'International Platform on Sustainable Finance".

Member State Policy – National Climate and Energy Plans

Member States submitted their draft NECPs in December 2019. The Commission is now in the process of assessing the draft NECPs, and is expected to issue its recommendations by the end of June. The Commission intends to do this by preparing a Chapeaux Communication and 28 country-specific recommendations. The Member States in the final submission to the Commission by 2019 will have to take "*due account of any recommendations from the Commission"*, if this is not done the Member States will have to justify this publically.

DG ENERGY and DG CLIMA are jointly coordinating on the assessment of the draft plans, with the support of the Secretariat General. ZEP has already engaged with the DG CLIMA unit and will have a meeting with DG ENER in early June.

The Commission is also consulting and informing a Technical Working Group composed of national experts and representatives of the Member States, which we understand is meeting approximately once every three months to discuss ongoing progress.