



European  
Commission



# Facing the perfect storm:

Addressing current energy, climate  
and geopolitical challenges



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*19 September 2022*



## A new strategic agenda for the EU 2019-2024

“In my first 100 days in office I will propose  
a European Green Deal.”

*Ursula von der Leyen*

- 1 A European Green Deal
- 2 An economy that works for people
- 3 A Europe fit for the digital age
- 4 Promoting our European way of life
- 5 A stronger Europe in the world
- 6 A new push for European democracy

# Geopolitical challenges of the EU

1. Economic recovery
2. Energy and climate policy
3. Tension at EU borders: Russian invasion of Ukraine



# 1. Economic recovery



# Summer 2022 interim forecast: Russia's war worsened the economic outlook

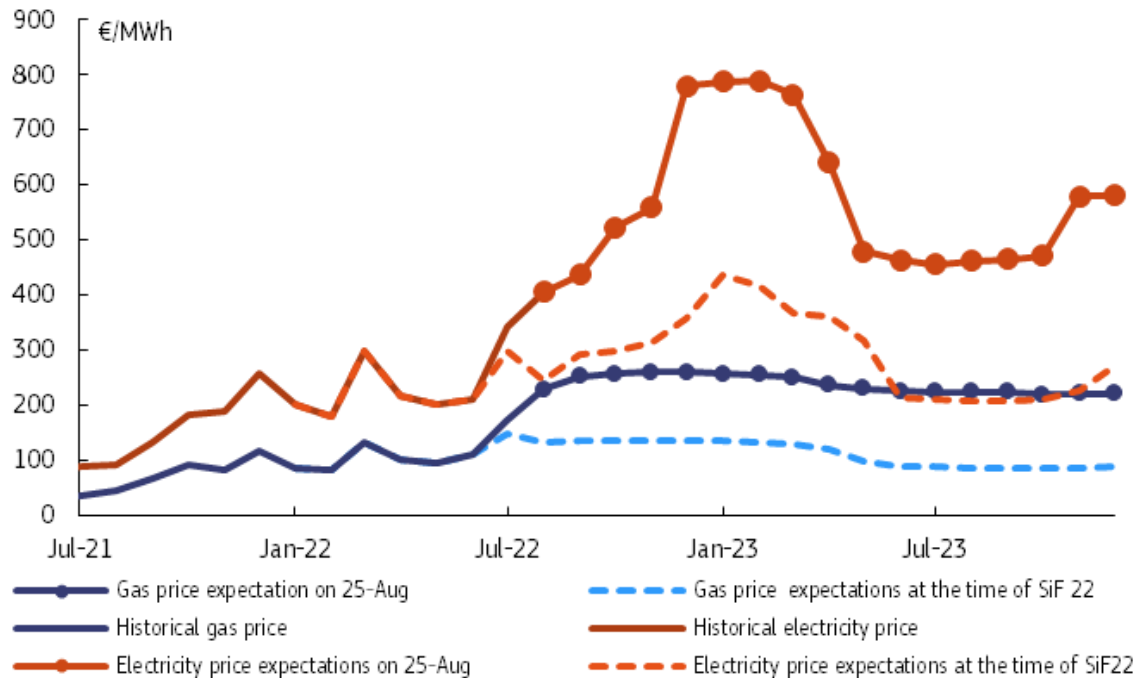
The **war in Ukraine** intensified pre-existing headwinds to growth:

- further surges in commodity prices
- renewed supply chains disruptions
- heightened uncertainty
- weakening global growth

→ Higher inflation and lower growth

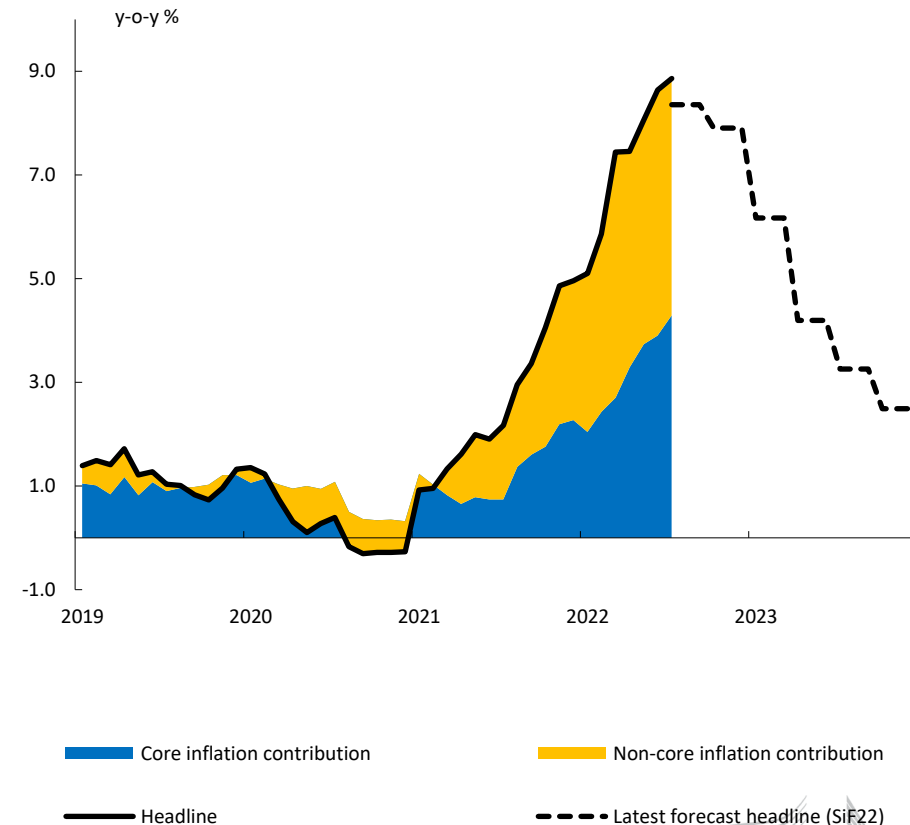
# The gas crisis adds to an already high inflation

## Energy markets



Notes: Price extatons are based on future prices (average in tha last 10 days).  
Electricity prices are weighted average from DE, FR, It, ES, NL, BE, AT.

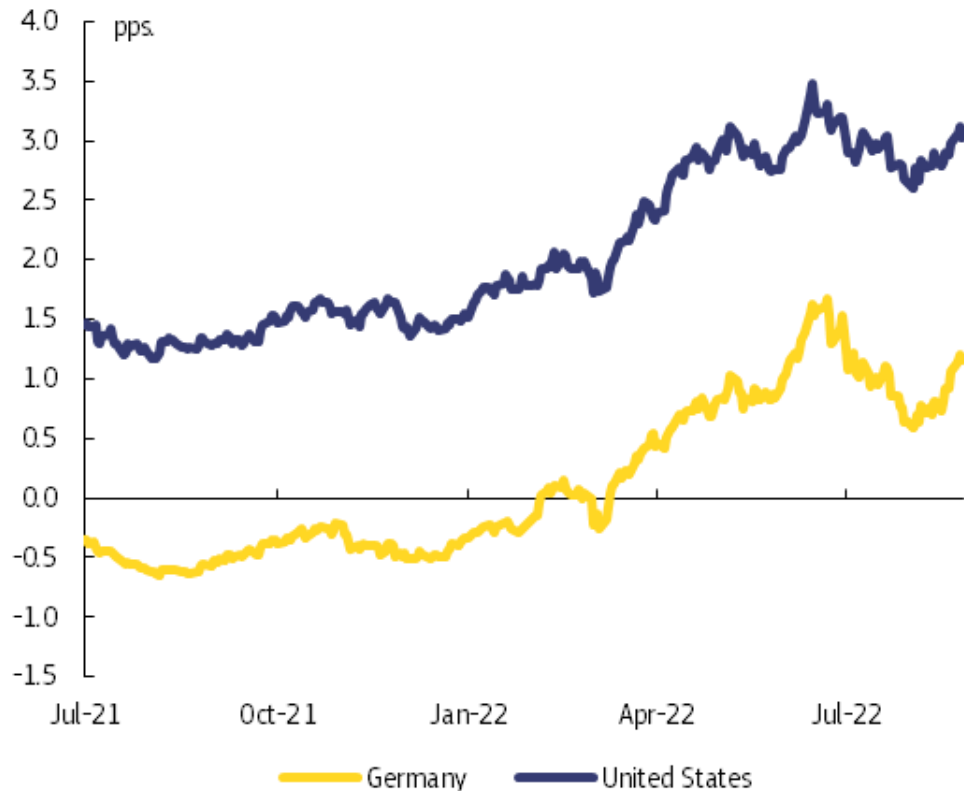
## Inflation breakdown, EA



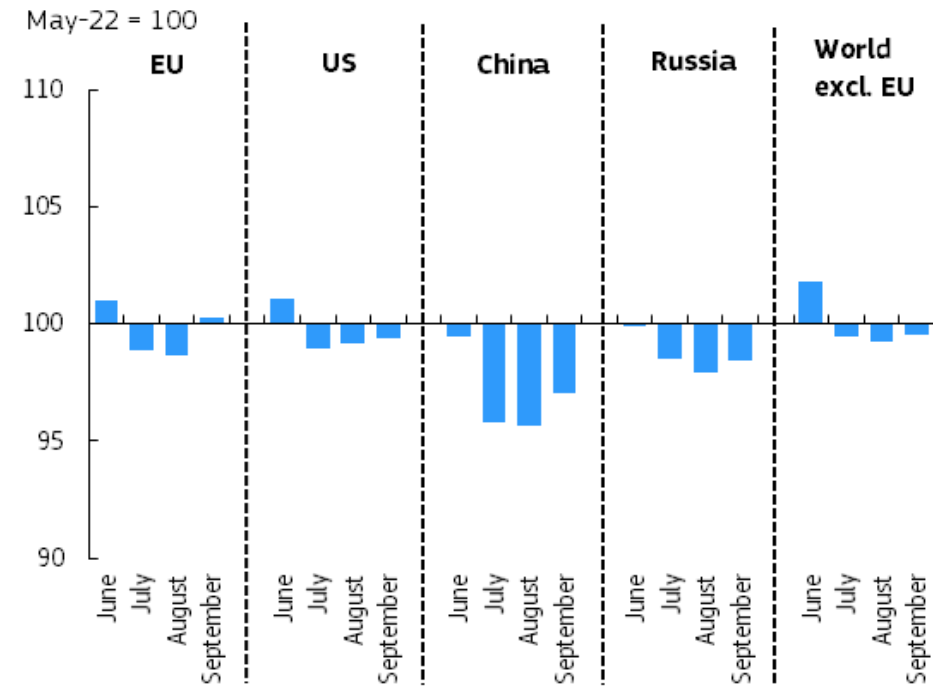
■ Core inflation contribution      ■ Non-core inflation contribution  
— Headline      - - - Latest forecast headline (SIF22)

# Trade has weakened amidst tightening financing conditions

10Y sovereign yields (US, DE)



Trade indicator 2022-Q3



Source: IFW Kiel Institute for the World Economy

Note: This indicator tracks arriving and departing ships for 500 ports worldwide. Also, ship movements in 100 maritime regions are analysed and the utilisation of container ships is derived.

## 2. Energy and climate policy



# Key EU rules

## Article 194 TFEU: EU energy policy objectives:

- Ensure functioning EU energy market
- Security of supply
- Energy efficiency and renewables
- Interconnection of energy networks

## Article 122 TFEU: Emergency tool

Urgent and limited in time measures to address severe difficulties in energy supply

***EU rules do not harmonize the energy mix of Member States***

***EU rules aim at a high level of protection of the environment***

# Internal energy market

- **Goal** – ensure the correct functioning of the market:
  - **Fair access** and a high degree of **consumer protection**
  - Adequate levels of interconnection and generation capacity
    - 2030 objective: **15%** interconnection
- **How?:**
  - **Elimination of obstacles** and **trade barriers**
  - **Convergence** of regulation, prices and tax policies
  - **Regulations** in the area of environment and security

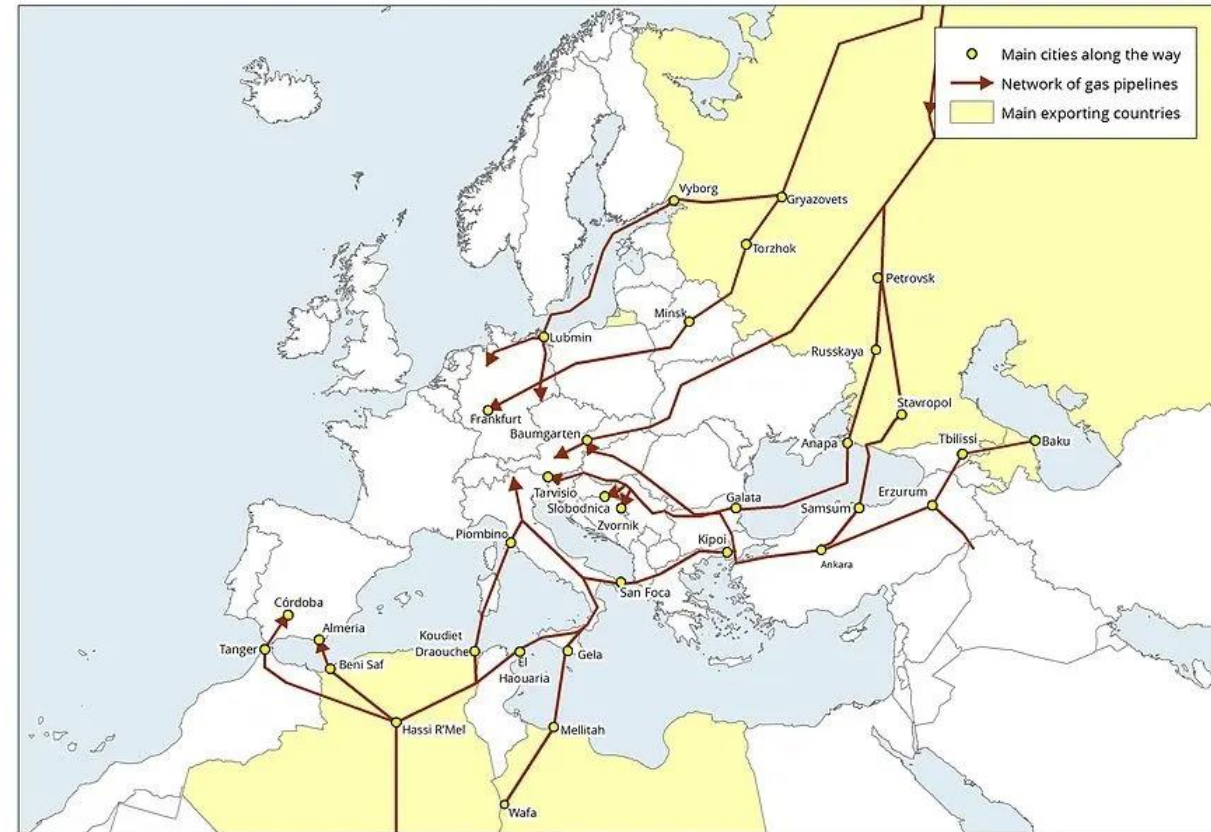


# The big challenge: Europe's dependence

Europe is poor in natural resources:

- 2000: **50%** energy dependence
- 2020: **57%** energy dependence
  - **90%** oil
  - **60%** natural gas
- 2050: planned **climate neutrality**

GAS PIPELINES THAT SUPPLY EUROPE



Source: Gazprom and EU

Source: learneurope.eu (map)

# Prices of electricity have risen dramatically

On 28 August, gas prices (TTF) reached 253 €/MWh  
(ca 190% higher than 3 months ago)

## Causes:

- **shortage of hydro** due to drought,
- **reduced nuclear** output (FR below 50%)
- high **shares of (expensive) price-setting gas** in the system



# What we did so far...

# Dealing with the energy crisis

- **No miracle solutions**
- **Short-term:**
  - Emergency support to the most affected consumers and businesses
  - Encourage energy savings and diversify supply
  - Design of measures is critical – incentives for energy savings
  - Beware of fiscal costs
- **Medium-term:**
  - Maintain/increase investments in renewable energy and energy efficiency
  - Complete and improve energy interconnections to diversify energy supplies
  - Remove bottlenecks to green investment



# EU response on demand, supply, prices and diversification

- **Price tool box:** support vulnerable consumers/households
- **REPowerEU** Communication (March '22) and Plan (May '22), with e.g.:
  - EU **Save Energy** Communication
  - EU **solar strategy**, action on permitting for major renewable projects
  - Communication on **Short-Term** Energy Market Interventions and **Long-Term** Improvements to the Electricity Market Design
  - **EU Energy Platform**
- **State aid** temporary framework (March and July '22)



# EU response on demand, supply, prices and diversification

## Legislative initiatives:

- **Storage Regulation** of 29 June 2022: 80%/90% target, (co-decided with EP)
  - As of 11 September, 84% of EU gas storage is filled.
- **Regulation on Coordinated Demand Reduction Measures for Gas** of 5 August 2022: **EU alert** (Art.122 TFEU) – Adopted in record time (19 days from Commission proposal)

## International cooperation

- **Joint Presidential statement** with the US
- **Memoranda of understanding** with Azerbaijan, Israel and Egypt

# Demand reduction and solidarity measures

- **Reduction** of electricity consumption by 10%
- **Cap on revenues** from infra marginal energy sources
  - redistribution to consumers and SMEs
- **Solidarity contribution** from **fossil** sector
  - redistribution to consumers and SMEs



# Optimizing EU purchasing power

## EU Energy Platform

-

Diversification  
and security of  
gas supply

### **Gas demand aggregation and/or purchasing & negotiations**

Leverage EU's weight to attract reliable supplies from global markets

### **Efficient usage of EU's gas infrastructure**

Maximise LNG absorption, ensure security of supply and storage filling

### **Setting a framework for cooperation**

Protocols, letters of intent or Memoranda of Understanding (EC and MS)



# Turning Europe into the first climate-neutral continent



**First Climate Law  
Climate Pact**

**Climate Objectives deliverable by 2030**

**“Fit for 55” package**

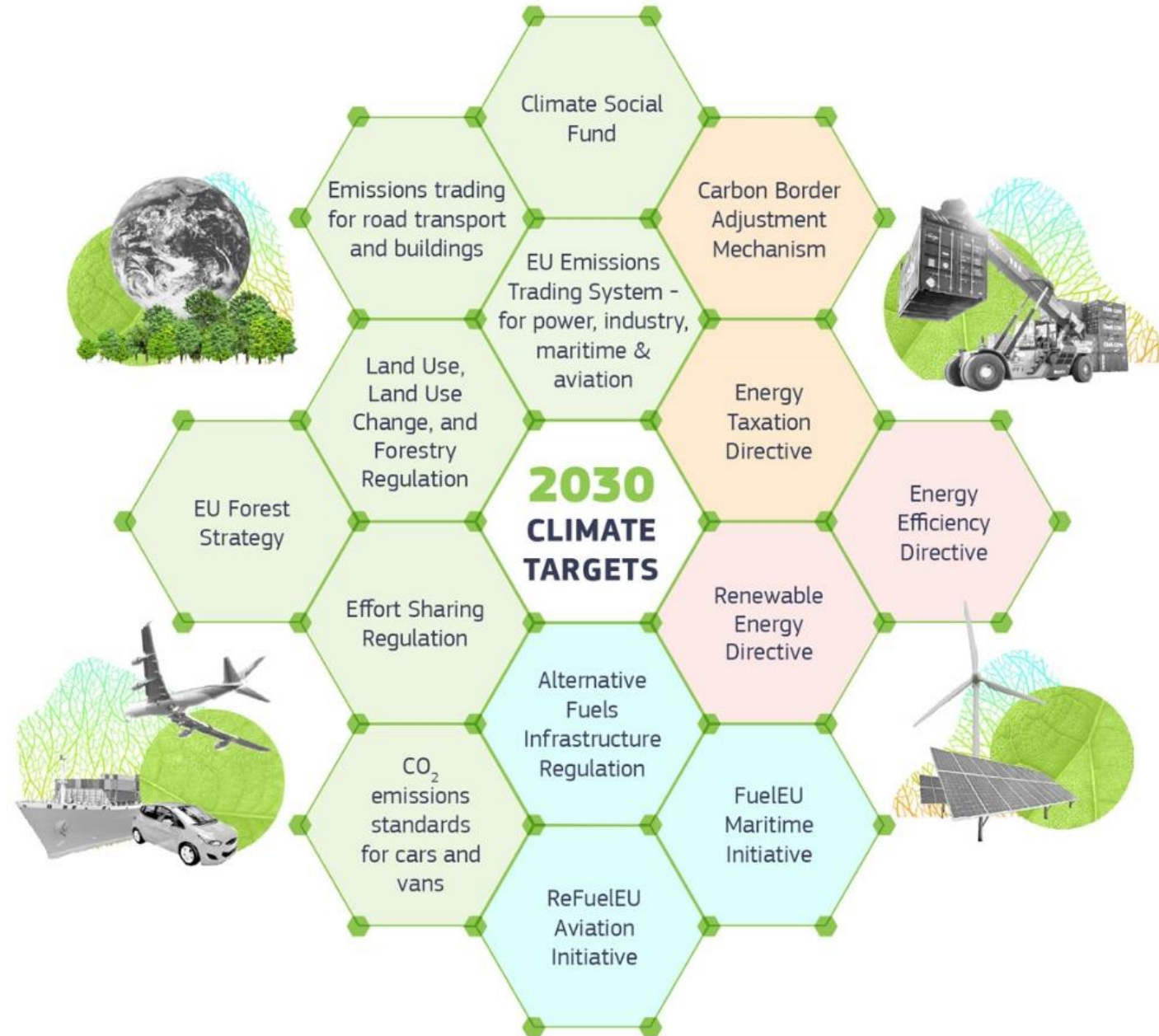
**Extension of the EU Emissions Trading  
System**

**Carbon Border Adjustment Mechanism**

**Circular Economy Action Plan**

# “Fit for 55”

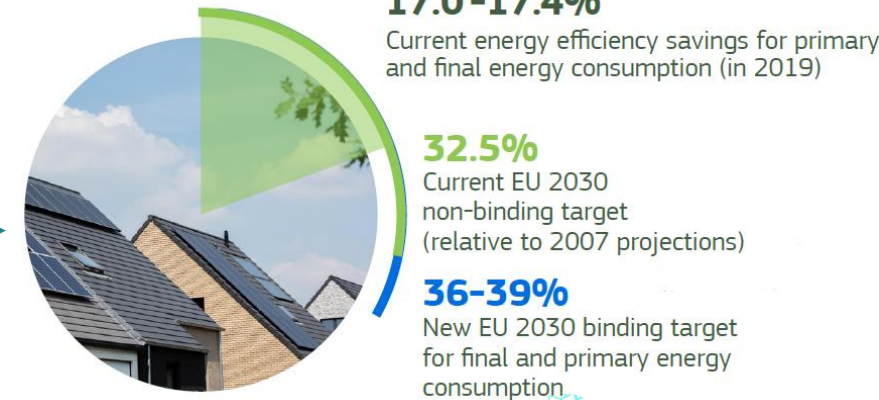
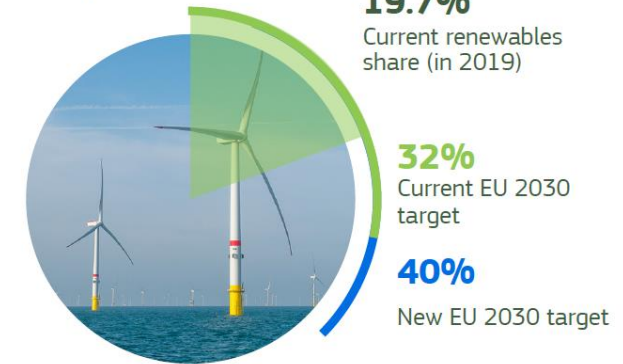
- Package of measures to achieve EU's 2030 climate targets:
  - via a **just and inclusive transition**
  - in a **cost-efficient** way
  - strengthening **competitiveness**
- Consolidates the EU as a **global leader** in the fight against climate change



# Some “Fit for 55” measures

- Extension of the Emission Trading Scheme to buildings and to road and maritime transport
- **Revision of the Renewable Energy Directive**
  - **New goal: 40% (2030)**
- Carbon Border Adjustment Mechanism
- Revision of the Energy Efficiency Directive
- Revision of the Third Energy Package for gas
- Revision of the Energy Tax Directive
- **Revision of the energy performance of Buildings Directive**
  - **New goal: 36-39% (2030)**
- Deployment of alternative fuels infrastructure
- Regulation setting CO2 emission performance standards for new passenger cars and for new light commercial vehicles
- Inclusion of greenhouse gas emissions and removals from land use, land use change and forestry

Renewables in the EU energy mix



# Open strategic autonomy

## 1. Reducing our strategic dependencies

- **European Chips Law** (20 % world production)
- **Circular Economy**
- Critical products **health crises**
- **Artificial intelligence** and **5G**

## 2. Strengthen R&D at European level and promote EU standards globally

## 3. Create an investment-friendly environment

- **Simplification of authorisation procedures** and predictable regulatory environment
- Investing in **skills** needed for a changing labor market
- **Single Market for Digital Services**
- Catalysing private investment in innovative projects (**EIB**)



# 3. Russian invasion of Ukraine

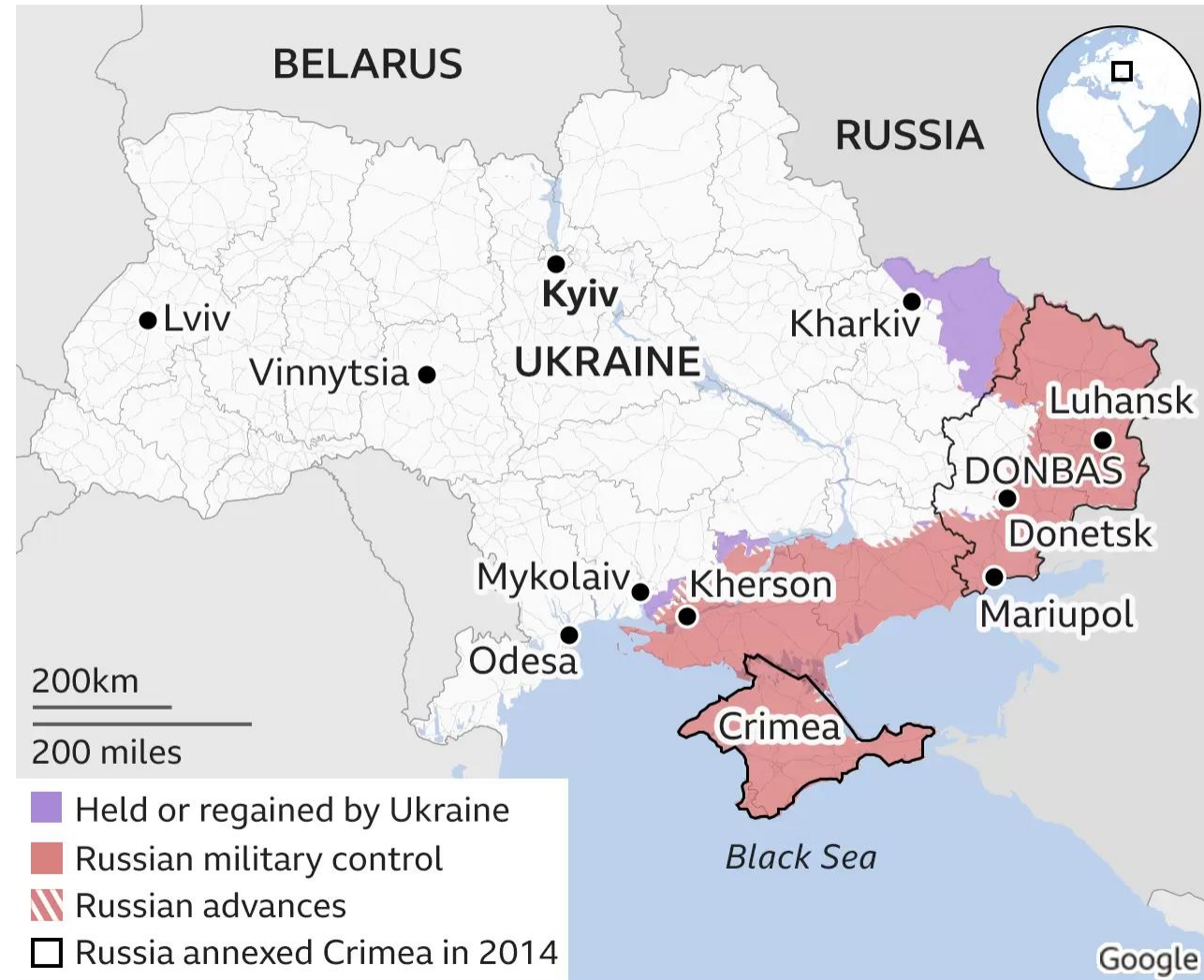


# The crisis in Ukraine

The Russian invasion of Ukraine has provoked serious **effects**:

- **Military**
- **Migration**
- **Energy**
- **Agricultural/ raw materials**
- **Other economic sectors**

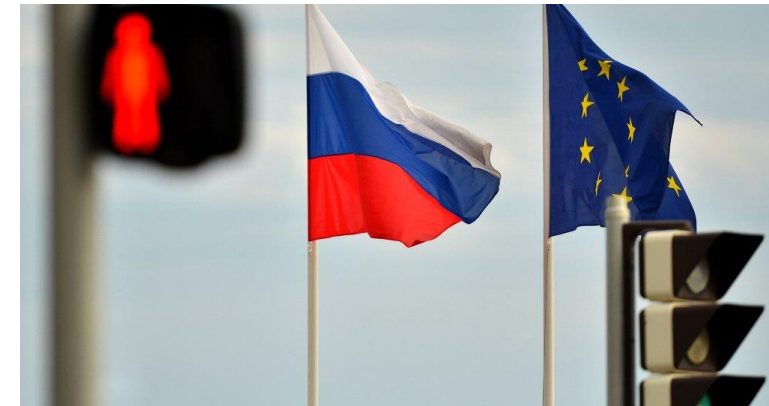
## Areas of Russian military control in Ukraine



# EU measures

## Six packages of sanctions against Russia

- **bans on exports** (technology, dual-use goods, aviation equipment, luxury goods...);
- **bans on imports** (oil -with exceptions-, coal, gold, steel...);
- prohibition of **overflight of EU airspace** by Russian airlines;
- bans on **road and maritime transport**;
- **prohibition of transactions** with the **Central Bank of Russia**;
- prohibition of access to **SWIFT** by certain Russian and Belarusian banks;
- **suspension of broadcast** of Russian outlets.



# EU measures

## Strengthening European Common Foreign and Security Policy

### EU Assistance to Ukraine

- provision of equipment and supplies to the Ukrainian Armed Forces through the **European Peace Facility**;
- **Emergency loan**: EUR 1.2 billion
- **Exceptional MFA package**: up to EUR 9 billion
- **Humanitarian aid**: EU 346 million to assist people fleeing the aggression
- **EU Civil Protection Mechanism**: life-saving supplies
- **Temporary Protection Directive**: residence permit for at least 1 year, access to education and labour market



# Conclusion



- EU policies must address the **geopolitical, energy and climate** issues, preserving the **internal market**, protecting **consumers** and ensuring **competitiveness**.
- *“I am deeply convinced that with our unity, our determination, **our solidarity, we will prevail**”.*
- The European project is based on common values and the Rule of Law.
- *“It is my Commission's duty and most noble role to protect the rule of law.”*

# Rule of law



# 2022 Rule of Law Report

- Specific **recommendations** addressed to each Member State
- Main conclusions:
  - i. Reforms of **judicial systems**: concern about the system of appointment of magistrates to higher courts, lack of autonomy of prosecution services and existence of disciplinary proceedings against judges in certain MS.
  - ii. **Fight against corruption**: need to allocate more resources and strengthen preventive standards in some MS.
  - iii. Freedom and pluralism of **the media**: concern about the lack of transparency and fairness in the distribution of institutional advertising, obstacles to public access to documents and the safety of journalists in some MS.
  - iv. **Institutional checks and balances**: focus on the absence of formal stakeholder consultation frameworks in the legislative procedure and obstacles to civil society organisations in some MS. Also, analysis of the counterpower system's reactions to the use of spyware (*Pegasus*)



# New budgetary conditionality instrument

- Unprecedented increase in **European funds (NGEU and MFF)**
- **Cross-compliance Regulation** European funds: *rule of law*
- **Actions brought by Poland and Hungary for annulment**
- Judgments 16 February 2022: the mechanism
  - was adopted on an **appropriate legal basis** (it aims to protect the budget if it is affected sufficiently directly by breach of the principles of the rule of law, and not to penalise that infringement);
  - is compatible with the procedure laid down in **Article 7 TEU** (they have different purposes and a distinctly different object); y
  - respects the limits of the **powers** conferred on the EU and the principle of **legal certainty** (competence to establish “financial rules” for the implementation of the EU budget).