



E3G

4 PRIORITIES FOR A FUTURE-ORIENTED CONNECTING EUROPE FACILITY

The post-2020 Multiannual Financial Framework (MFF) is the first EU budget negotiated after the adoption of the Paris Agreement and the Clean Energy Package, which will significantly shape the EU's energy sector. If the European Union is serious about delivering these targets, the post-2020 MFF will play a key role in channelling the resources where they are most needed. Here are 4 things to keep in mind when designing a Connecting Europe Facility for a modern, clean and connected Europe.

The EU investments decisions of today will succeed – or fail – to empower young Europeans to build the clean and modernised future they want. The next generations are aware of the potential of the transition to a low carbon economy: 80% of all 18-25y old think fighting climate change could boost economy and jobs¹. Despite its limited envelope², the Connecting Europe Facility (CEF) directly shapes the EU clean energy and climate landscape, as it supports priorities for cross-border cooperation on energy, transport and digital infrastructure. This programme is responsible for enabling the **creation of an integrated and well-connected Energy Union**.

Significant progress was achieved in clean energy and climate ambition, both at European and international level, since the 2014-2020 budget was decided. The 2015 Paris Agreement commits 195 countries to limiting the increase in global average temperature to well below 2 °C above pre-industrial levels, and to pursue efforts to limit the increase to 1.5 °C. In 2018, the EU agreed to increase the share of renewable energy to 32% of its energy mix by 2030, and to cut energy waste by 32.5%, through the 'Clean Energy for All Europeans' package.

To ensure efficient and swift implementation of these commitments, the next EU budget needs to act as a clear signal for investors to invest in a just transition to a low carbon economy.

1. Coherence with Clean Energy Package and Paris Agreement

Under the current CEF energy portfolio, the largest share of funding (€1.33 billion) has so far gone to 53 gas projects, followed by 48 electricity projects (€1.27 billion) and only two smart grid projects (€0.042 billion) (see Figure 1). The CEF proposal, as it stands, gives equally conflicting signals by continuing to allow investment running contrary to the achievement of the climate goals.

¹ **European Commission** – Eurobarometer 2017

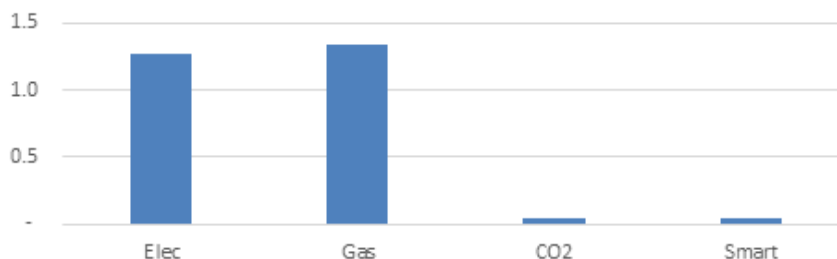
² For the period 2021-2027, the European Commission proposes to offer €42.3 billion for networks for transport (€30.6 billion), energy (€8.7 billion) and digital (€3 billion).



E3G

When negotiating, the European Parliament and the Council must not forget the medium and long-term path the Union committed to in order to reach a zero-emission society. Council and Parliament must **phase out public funding for fossil fuel infrastructure and invest for a safer, independent and modern Union.**

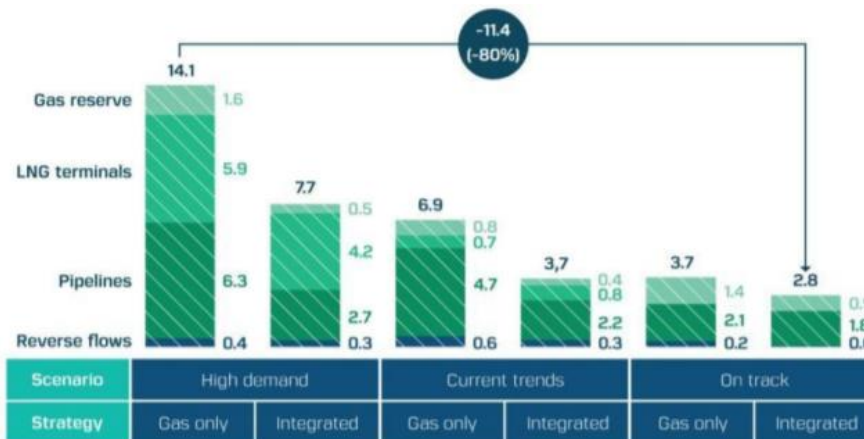
Figure 1: Cumulative CEF energy funding per infrastructure type (in € billion)



Source: E3G, based on European Commission data

The investment needs have clearly changed. According to the Commission’s sustainable finance expert group, additional annual investments of **€170 billion** are required to meet the 2030 clean energy and climate targets. Considering the impacts of EU decarbonisation policies and the lifetime of gas infrastructures (around 40 years), further investment on these fossil projects would bring to stranded assets and unnecessary spending. The ‘Energy Union Choices’ study³ demonstrated how an integrated approach to energy security could potentially reduce gas infrastructure investments by 80%, equivalent to savings of €11.4 billion (see Figure 2).

Figure 2: Costs of gas infrastructure to ensure security of supply (in € billion)



Source: Energy Union Choices (2016), **More Security, lower cost**

As domestic gas production is declining⁴, Member States will become more dependent on gas imports from third countries unless they shift to other energy carriers or reduce consumption.

³ **More Security, Lower Cost. A smarter approach to gas infrastructure in Europe** – Energy Union Insight Series #1

⁴ “Gas output decreased in Germany (-14%), Italy (-8%), Poland (-2%), Romania (-3%) and the UK (-3%), was flat in Denmark and slightly increased in the Netherlands (1%)” – **Quarterly report on EU gas market 2018**



E3G

Investment decisions must aim at reducing the vulnerability of EU countries and building a safer and independent energy network.

Even though the EU's gas import decreased in the first quarter of 2018, its import bill was 8% higher than in 2017, accounting for €22 billion that the Union had to pay to external providers⁵. This illustrates the financial risk of import dependence on fossil gas.

Investments contributing to increase gas consumption in the EU will not only raise future import bills, but also further weaken EU energy security. To create a modern and clean Union, **the energy network needs to be reshaped and budget lines should be directed to more forward-looking investment.**

2. Update the infrastructure priorities

In 2013, the Trans-European Networks for Energy (TEN-E) Regulation was adopted to outline the EU energy network priorities – based on a 2011 Commission's Communication. The TEN-E also set up the so-called Project of Common Interest (PCI) lists, which aim at facilitating the planning and funding of important cross-border infrastructure projects. Currently, the PCIs still supports over 50 fossil gas projects, and only 4 smart grid projects. **The PCIs have a direct impact on CEF energy expenditure, because being part of the PCIs list is an eligibility criterion to get CEF funds.**

Investment decisions must be based on an updated analysis of energy network needs. In order to design a climate-compatible CEF, it is necessary to take one step back. The infrastructure priorities outlined in the TEN-E regulation (Annex II) lists many gas corridors as priority. Given the progress in the current budget period, the European Commission expects gas networks to be complete by the early 2020s⁶, therefore further investments on gas infrastructure will not be needed. The scale and scope requirements for smart grids in that regulation (Annex IV) make it extremely hard for these projects to be eligible. Voted in 2013, the TEN-E regulation does not take into account the Paris Agreement, the Clean Energy Package, and the latest IPCC 1.5°C report.

If the eligibility criteria for PCIs in the TEN-E regulation are not encouraging projects in line with updated network needs, **the regulation needs to be revised. Priorities have changed and CEF money must be accessible primarily for electricity and smart grid projects.**

Priority 2 **Revise the TEN-E regulation to update infrastructure priorities**

⁵ European Commission, [Quarterly report on EU gas market 2018](#)

⁶ European Commission, [Communication on strengthening Europe's energy networks 2017](#)



E3G

Priority 3
Include 'efficiency first' principle

Priority 4
Earmark at least 20% of the CEF for cross-border renewable projects.

3. Put Efficiency first

The design of a future-oriented Connecting Europe Facility could unlock a series of investment decisions which will eventually lead to the construction of a dynamic and efficient energy system. This new network will only be “future-oriented” if demand-side and energy efficiency measures are the cornerstone of the EU energy planning.

The Governance of the Energy Union regulation, adopted in June 2018, includes the definition of the so-called “Energy efficiency first” principle⁷. **This same definition should be included in every sectoral legislation of the EU budget, in order to ensure the consistency with the EU targets and a real cost-efficient and sustainable spending.** Besides this, the investment in energy efficiency projects will have important co-benefits for the European economy – namely, lower gas demand⁸, higher energy security, lower energy costs both for citizens and industries⁹, improve the quality of life, and create new jobs¹⁰.

4. Enable investments in cross-border renewable projects

The Commission’s proposal for the post-2020 Connecting Europe Facility includes dedicating funding to cross-border renewable energy projects – such as offshore wind hubs in the North and Baltic seas and renewable energy cooperation in Southeast Europe. This is a significant improvement compared to the current CEF legislation.

As it stands, the text suggests dedicating “up to 10%” of funding to these projects. Some members of the European Parliament have tabled a range of amendments calling for a higher target, from 15% to 25%. More importantly, while the Commission is suggesting a ceiling limit, it seems appropriate to change it in a floor one. Otherwise, if the Union will dedicate only 1% of the fund to cross-border renewables projects, this would still respect the text. **A dedicated spending of “at least 20%” would not only allow to cover a higher demand, but also send the right political signal to private investors.**

⁷ “Energy efficiency first” means the prioritisation, in all energy planning, policy and investment decisions, of measures to make energy demand and energy supply more efficient, by means of cost-optimal energy end-use savings, demand-side response initiatives and more efficient conversion, transmission and distribution of energy – **Governance of Energy Union**

⁸ In buildings, gas demand could decrease up to 70% equivalent to €106 billion saving - **BPIE report**

⁹ “Improvements in industrial productivity can be worth up to 2.5 times the actual energy savings” - **Efficiency First: A New Paradigm for the European Energy System**

¹⁰ In 2010, around 1 million people were employed in energy efficiency-related jobs – **European Commission**



E3G

About E3G

E3G is an independent, non-profit European organisation operating in the public interest to accelerate the global transition to sustainable development. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere.

More information is available at www.e3g.org

Copyright

This work is licensed under the Creative Commons Attribution-NonCommercial-ShareAlike 2.0 License.

© E3G 2018