

Riga, 10 March 2015

H.E. Donald Tusk
President of the European Council

Dear Mr. President of the European Council,

Building on the European Council decisions of last June, the **development of the resilient Energy Union with a forward-looking climate change policy** is one of Latvian Presidency's **priorities**. There is a clear need for Europe to regain the **leadership** on the global stage. There is a common agreement on the **bottlenecks** that should be addressed. The current **geopolitical situation** and the long term **climate targets** increase the need for **fresh and comprehensive approach** for energy policy, which would harvest the **benefits of synergies** between the different energy policy areas.

Building on the informal discussion on 6 February that launched the Riga process the **Council held the first exchange of views on the strategic framework for the Energy Union**. At the meetings of the Transport, Telecommunications and Energy (TTE - Energy) Council on 5 March and the Environment Council of 6 March, Ministers took part in an exchange of views on the development and implementation of the Energy Union shortly after the European Commission presented its "Framework Strategy for a Resilient Energy Union with a Forward Looking Climate Change Policy" (Energy Union Strategy). The Presidency takes this opportunity to inform you on these discussions, given the direct relevance of the topic for the **forthcoming debate and expected endorsement by the European Council** of the Energy Union Strategy and the key components of the Energy Union. It is crucial for the heads of states and governments to welcome the **balanced approach** of the overarching strategic framework, including on further measures aimed at **enhancing Europe's energy security, interconnecting internal energy market, decarbonizing European economy, tackling energy poverty, developing energy diplomacy and strengthening regional cooperation**.

Ministers welcomed the Commission's Communication on a Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy as good basis for further discussion.

The five dimensions of the Energy Union:

The Commission's Energy Union Strategy and proposed action plan were broadly well received and there was an overall support to the ambitious approach presented by the Commission.

There is an emerging general agreement as to the five dimensions put forward by the Commission in its paper, i.e.:

- security of supply, underpinned by solidarity and transparency;
- a competitive, connected and completed internal energy market;
- increased energy efficiency;
- decarbonising the European economy;
- research, innovation and competitiveness.

There is a common and strong view that all five dimensions are **closely interlinked** (e.g. efforts to increase Europe's energy efficiency underpin energy security and decarbonisation objectives, and can be supportive of technological leadership and of creating green, often local jobs) and should be **mutually reinforcing** in an overarching, **holistic approach** encompassing all five dimensions. This holistic approach should bring the added value of Energy Union to the energy policy. It should aim for a balance between sustainability, security and competitiveness. Meanwhile, many Ministers stressed the importance of maintaining national **competence** over the energy mix, in accordance with the Treaty. They agreed that a coherent approach across different policy areas was vital in order to provide a coordinated response to the challenges of climate change, energy security and competitiveness. Attention was also drawn to the need to provide affordable energy for all consumers. Ministers highlighted the importance and complementarity of all five dimensions of the Energy Union Strategy and stressed the need for a coherent balance between them.

Issues regarding the **investment climate** and **access to financing** in the energy field and mobilizing the financial sources are overarching, important for all five dimensions and **therefore should be further looked into.**

As of no particular order ministers have stressed the importance of a **fully functioning and interconnected internal energy market** as the core of the Energy Union, while others underlined the primary importance of striving for greater **energy security**, given the high dependence of the EU from energy imports, and in particular the exposure of certain Member States, also against the backdrop of heightened concerns on geopolitical instability.

Internal energy market:

Apart from the overriding prerequisite of timely and full **implementation of internal energy market legislation**, both in gas and electricity sectors, a strong and coordinated action to accomplish key **infrastructure projects** was mentioned by a number of ministers. These projects should be aimed to increase, reinforce and coordinate **cross-border interconnections**, including reverse flow capacity, to end energy isolation and ensure integration of remote and insufficiently connected regions in the European continental networks (including synchronization). Member States welcomed the recent interconnection summit in Madrid.

Many underlined that **consumers** should be at the heart of efforts to implement and upgrade the internal energy market, which should bring also tangible benefits to more vulnerable consumers.

A number of Ministers saw merit in looking into ways to increase security of supply and improve **market design** in order to **overcome market fragmentation**, to facilitate voluntary market coupling and demand side response, and to balance intermittent electricity from renewable sources and distributed generation.

Energy security, solidarity and trust:

Based on the actions envisaged within the European Energy Security Strategy (EESS) as decided by the European Council at its meeting on 23-24 October 2014, there were broadly shared views among the Ministers that reducing energy dependency and vulnerability, especially concerning gas supplies, is important, and that some of the strands of the EESS should be further developed or reinforced. Many Ministers recalled that a well-functioning and connected internal energy market would yield in itself energy

security benefits for the EU as a whole and for more vulnerable Member States. **Intergovernmental agreements** in the field of energy should be made more transparent and streamlined and be fully aligned with energy market rules. However discussions on concrete ways how to do this should be further elaborated. Some Ministers concurred with the Commission that this could include an active role for the Commission through ex ante consultation, while some more expressed caution underlining the confidential nature of commercial contracts.

Some Ministers expressed support for the idea to increase EU bargaining power through voluntary aggregated, **collective gas demand and purchases**. Here, some others underlined the need for the respect of market rules. **Solidarity** and **emergency response mechanisms** were mentioned by Ministers as areas deserving further attention at both regional and EU level, building on existing legislation in the gas sector, but also looking into ways to increase security of supply for **electricity**. Finally, Ministers expressed general support for bolstering supply **diversification strategies** of sources, suppliers and routes and reinforcing **strategic energy partnerships**, and reinvigorating European **energy and climate diplomacy** at the global level. Ministers noted the need to further diversify local and imported energy sources, notably through LNG and safe and sustainable use of domestic and unconventional sources.

Energy efficiency as a contribution to the moderation of energy demand:

There was consensus among Ministers that energy efficiency gains represent a horizontal and important instrument in support of energy security, competitiveness, decarbonisation and innovation, and bring direct benefits to consumers through lower energy bills. The three main priorities should be efficient buildings, vehicles and products. Recognizing the enormous potential for energy savings in Europe's **buildings**, there were calls by Member States for stepping up financial support for energy efficiency measures through EU Structural Funds and the European Investment Fund for Strategic Investment, as well as for measures to increase **awareness of energy consumers** of financial benefits of energy efficiency interventions.

A more **energy-efficient transport** system was seen as one of the ways to reduce Europe's dependency on fossil fuel imports, reduce CO₂ emissions and improves public health, in particular in urban areas.

Decarbonisation:

Ministers stressed the role of different **low carbon technologies** that can be used to move towards low-carbon economy. In particular they mentioned the role of renewable energy sources, carbon capture and storage and nuclear energy. Delegations agreed with the Commission that the potential of renewable energy sources needs to be exploited more cost-efficiently and sustainably, taking into account the challenges of their integration into electricity grids and the internal energy market, and addressing public acceptance issues. These issues should also include a focused attention to the transport sector. Some Ministers expressed the view that the increase of renewable energy in Europe should be done in the cost efficient manner mostly for consumers; especially it should not lead to decrease of competitiveness of Europe's businesses. The Ministers welcomed the proposal from Commission to come with renewable energy package in 2016, including proposals on the further development of biofuels and sustainable use of biomass.

Many stressed that climate policy should be at the heart of the Energy Union. Decarbonisation of the economy can lead to positive impacts for all of the other dimensions and offers potential for growth, jobs and competitiveness.

Ministers recalled that the **2030 climate and energy policy framework** agreed by the October 2014 European Council formed the basis for the next steps in the EU's decarbonisation measures and called for its efficient implementation through legislative proposals. Emphasis was also given to the adoption of the EU's new ambitious greenhouse gas emission reduction target as vital factor in maintaining momentum in the international climate negotiations. Many ministers stressed the key role of a reformed EU Emissions Trading System (ETS) as the main European instrument to achieve the 2030 reduction target. In this context, many ministers highlighted the importance of the proposal for an ETS Market Stability Reserve, which is currently being discussed in the Council and the European Parliament, as well as the future revision of the ETS Directive, which should also duly address the risk of carbon leakage. Ministers also emphasised the need for new initiatives in sectors not covered by the ETS, such as transport and buildings.

Ministers agreed that the targets for energy efficiency and renewable energy would not only contribute to the achievement of our overall emission reduction target but also to security of energy supply and energy independence in the EU. The use of indigenous resources as well as safe and sustainable low carbon technologies can also help to achieve a higher level of energy security. In this context, many ministers recalled the right of Member States to determine their energy mix and the principle of technology neutrality.

Research and innovation:

Some ministers stressed that research and innovation (R&I) should be seen in the light of more **competitive** Europe. Funding for R&I should be targeted effectively. **R&I priorities** should cover broad spectrum of issues ranged from electricity storage systems, geothermal, marine, wind, solar energy, biomass and advanced biofuels, smart grids, energy efficient materials and solutions to nuclear energy, unconventional hydrocarbons and carbon capture and storage. Attention was also drawn to the need for adequate instruments to support the anticipated significant investments needed for research, development and innovation in the area of low-carbon technology development.

Governance and regional cooperation

Ministers recalled that the governance process for the Energy Union should **avoid unnecessary administrative burden** and **simplify and streamline the regulatory framework**, while providing a robust framework for monitoring and delivery of 2030 climate and energy policy targets and the overarching objectives of the Energy Union in one consolidated process. Ministers called for a **clear and transparent framework** consistent with the principles agreed in the 2030 framework, which should avoid unnecessary administrative burden and provide the necessary flexibility for Member States in accordance with their specificities and individual circumstances.

Strengthening and building on good examples of integration through **regional cooperation** (such as the Baltic Energy Market Interconnection Plan, the Pentalateral Energy Forum, the North Seas Countries Offshore Grid Initiative and the Mediterranean Energy Forum) were mentioned by a number of Ministers as promising stepping stones for further, EU-wide market integration, possibly within a common EU framework.

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We hope that this summary of the exchanges of views will provide a useful contribution to the important discussion that will take place at the European Council later this month on the Energy Union and will facilitate the understanding of the concerns and priorities that Member States could express at the coming European Council.

Yours sincerely,

Minister of Economic Affairs

Dana Reizniece-Ozola

Minister of Environmental Protection and
Regional Development

Kaspars Gerhards