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مركز التكامل المتوسطي



*Mediterranean Forum on Electricity and Climate Change*

## Workshop

# Discussion Of Briefing Paper On The EU 'Clean Energy For All Europeans' Package For The Use Of Southern And Eastern Mediterranean Countries

Organised by the European Commission  
and the Center for Mediterranean Integration

**Brussels, 10 April 2019**

### **Summary of discussions and next steps<sup>1</sup>**

The Center for Mediterranean Integration (CMI) and the European Commission organized jointly a workshop entitled “**Discussion Of Briefing Paper On The EU ‘Clean Energy For All Europeans’ Package For The Use Of Southern And Eastern Mediterranean Countries**”. The workshop took place in Brussels on 10 April 2019.

The purpose of the workshop was to present a Brief on the EU Clean Energy for All (CE4ALL) Package, commissioned by the CMI and the European Commission and prepared by Fraunhofer, to inform the Southern and Eastern Mediterranean Countries (SEMC) on the Package and its implications for their electricity markets. The workshop was used to obtain feedback from SEMC participants on the usefulness of the Brief.

The workshop was attended by 25 participants, representing the ministries of energy and finance and electricity companies from SEMC. Also represented at the workshop was the Association of Mediterranean Energy Regulators (MedReg), as well as international financial institutions including the World Bank, the French Agency for Development (AFD) and the European Bank for Reconstruction and Development (EBRD).

The agenda of the workshop, as well as the presentations and participant list, are attached. The present document focuses on summarizing the key messages from the discussion (that will serve to revise the Briefing Paper) and the suggested next steps.

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<sup>1</sup> Prepared by Dr Silvia Pariente-David, Senior Advisor, CMI

## Introduction and Session 2 on the Overview of the Package and the Briefing Paper

- The Energy Union strategy aims at ensuring a secure, affordable and sustainable energy supply to all Europeans and acknowledges that regional market integration is key to achieving its energy transition objectives at minimum cost. The CE4ALL Package, launched in November 2016, aims at creating a secure and integrated EU energy market to implement the Energy Union (including commitment under the Paris Agreement). However, energy security does not stop at the EU borders and the Package can also help non-EU countries move forward on the energy transition path. Market integration, regional cooperation and coordination between system and market operators, between Member States (MS) and possibly also with third countries, play a central role in the Package.
- The CMI launched, in November 2015, the Mediterranean Forum on Electricity and Climate Change, to raise awareness on the benefits of Mediterranean energy market integration to support the transition to a low-carbon economy in Europe and MENA and to disseminate knowledge on the issues to be addressed to successfully achieve the Mediterranean energy market integration.
- Creating an integrated Euro-Mediterranean energy market, by connecting countries of the southern Mediterranean shore-- which are rich in carbon-free energy resources-- to countries of the northern shore-- which have a strong appetite for carbon-free electricity and are willing to pay for it—would increase the flexibility of interconnected power systems and support the optimum development of the renewable energy potential of the region to the benefits of all interconnected countries.
- Since the launch of the CE4ALL Package, the CMI and the European Commission (EC)-DG Energy/DG Near have been promoting a dialogue between the Northern and the Southern Mediterranean countries to inform the thinking on the implications of the CE4ALL Package on Euro-Mediterranean energy market integration. Discussions took place during several workshops and high-level conferences since the proposal for the CE4ALL. During these events, the SEMC expressed the need for a better understanding of the opportunities offered by the Package, of the options to participate in the European renewable energy sources (RES) market and of the underlying economics. The European Commission and the CMI decided to prepare a synopsis of the CE4ALL Package, focusing on the aspects that are relevant to SEMC, and the purpose of the workshop was to present the Briefing Paper that was prepared by Fraunhofer to address those requests.
- The CE4ALL Package intends to make the EU energy sector more stable, more competitive and more sustainable. With a view to stimulating investment in the clean energy transition, the package has three main goals: putting energy efficiency (EE) first, achieving EU global leadership in renewables and delivering a fair deal for consumers. The package includes 8 different legislative proposals (each with a linked impact assessment) covering: Energy Performance in Buildings, Renewable Energy, Governance, Energy Efficiency, Electricity Market Design (the Electricity Regulation, Electricity Directive, and Risk-Preparedness Regulation) and Rules for the regulator ACER. The Renewable Energy Directive, the Governance Regulation and the Energy Efficiency Directive were officially published in December 2018, whilst the Energy Performance in Buildings Directive had already been finalized in June 2018. With regard to the remaining proposals on electricity markets there is a political agreement, but official adoption is still pending.
- The Governance Regulation aims at a coherent and coordinated approach to implementing energy and climate policies, to ensure efficient compliance with international climate commitments and provide visibility and certainty to investors and consumers. Member States (MS) prepare Integrated National Energy and Climate Plans (NECP) for the period 2021 to 2030 (and every

subsequent ten-year period) based on a common template; NECP are monitored by the European Commission, to identify gaps compared to the climate and energy objectives. The NECPs require MS to describe their national objectives regarding energy supply from third countries.

- During the discussion, several issues related to market integration and trade were raised, among which: how to distinguish between trade in RE electricity from plain electricity trade and how to address cross-subsidization issues if subsidies are still in place through support schemes in some EU countries? Certificates with guarantee of origins (GO) and schemes that limit the GO granting to those facilities that are not subsidized are one way to address those issues.
- Another comment was that cooperation mechanisms must take into consideration the specificities of each country party to the cooperation project, be it a MS or a SEMC. A better description of the barriers to cooperation mechanisms was deemed necessary in the Briefing Paper by several participants (incl. an assessment of why the Art. 9 of the previous Renewable Energy Directive (RED) was never used).
- One initiative already under way to make use of the opportunities offered by the CE4ALL Package to access the EU electricity market is the Sustainable Energy Trade (SET) Roadmap project<sup>2</sup> that was presented by the MASEN participant. The SET Roadmap preparation includes a cost-benefit analysis of increased RES electricity exchanges between the signatories and the identification of investments, processes and procedures necessary to enable free sustainable electricity trade. Several participants expressed interest in setting up similar initiatives or in broadening it, giving it a multi-lateral dimension.

### **Session 3- Focus on Renewables**

- One of the key features of the CE4ALL Package is the disappearance of national RES targets after 2020. The RED sets a target for renewable energy sources in final energy consumption of at least 32% for the EU as a whole, including the possibility of an upwards revision of the targets in 2023. The target is binding at EU level, meaning that target achievement is mandatory, but there are no new binding renewable energy targets at national level for the year 2030; the 2020 national targets however remain applicable. The revised RED sets the general principles to ensure the target is met at EU level in a cost-effective way, encouraging a market-oriented and Europe-wide approach. Together with the Governance and Electricity Directives and Regulations, it aims to establish a regulatory framework that leads to investor certainty and establishes a level playing field for all technologies.
- In practice, this implies a move to auction-based support (in line with State Aid Guidelines) and increased use of cooperation mechanisms, so that RES production takes place where cost is lowest. The recast RED explicitly requires that national RES support schemes be open to generators in other Member States. The workshop participants inquired on the need to maintain subsidies as RES costs fall; the ensuing discussion led to a consensus that support schemes might be needed even in the absence of subsidies, to ensure a stable and enabling investment framework. The mandatory cross-border opening does not cover third countries, but nothing prevents an individual country from opening to a non-EU country if there is benefit in doing so.

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<sup>2</sup> During COP22 in Marrakech, a Declaration was signed at the instigation of MASEN, by 4 European ministers (Spain, Portugal, France, Germany) and Morocco's Minister of Energy, in presence of the EU Commissioner on energy and climate and the UfM Secretary General, to prepare a roadmap for exchanges of zero-carbon electricity between Morocco and Europe—the so-called Sustainable Energy Trade (SET) Roadmap. In December 2018, another Joint Declaration was signed in Brussels, focusing in the short-term on establishing an open and free cross-border Green Corporate PPA market, while initiating actions for electricity market integration.

- The Governance Regulation includes several options for “gap filling” in case EU targets are not met through the implementation of NECP. These include making a voluntary financial contribution to the EU RES Financing Mechanism or using cooperation mechanisms (including with third countries). The details of the Financing Mechanism will be defined in secondary legislation. The tendered support through the Financing Mechanism only supports EU projects; thus, third countries do not have access to these auctions. The enabling framework facilitates the development and use of flexibility services in order to integrate RES into the power system, infrastructure development and regional cooperation between countries, including with third countries.
- A new addition to the list of cross-border cooperation mechanisms is the possibility to finance renewable energies projects through the Connecting Europe Facility (CEF). The European Commission has proposed to include cross-border RE projects for support under the CEF for the period between 2021 and 2027, to enhance the use of cooperation mechanisms both between EU MS and between MS and third countries. Projects are eligible if they lead to cost savings in RES deployment, additional benefits for system integration, security of supply or innovation compared to a similar project implemented by only one MS, and moreover have a positive cost-benefit ratio.
- The main options for SEMC to be included in EU RES support schemes are joint projects with EU MS, that might be eligible for receiving funds from the EU Financing Mechanism and the new CEF. SEMC could approach those MS that show a gap in their NECP to identify joint projects. Joint projects with third countries imply that the electricity generated in third countries must be exported physically (i.e. *electricity is consumed in the EU*) and needs to be produced from new plants. Furthermore, electricity produced and exported must not have received support from a support scheme of an SEMC other than investment aid granted to the installation. An example was worked out between Morocco and France during the workshop.
- In order to participate in cooperation mechanisms with EU MS, SEMC need to put in place tracking and certification schemes (Guarantee of Origin) similar—or at least compatible—with those in place in EU MS. MEDREG could play a role in developing GO schemes in SEMC.

#### **Session 4- Focus on Market Integration and Interconnectors**

- The Market Design part of the CE4ALL Package aims at ensuring that the EU electricity market is fit for integration of a high level of RES into power systems as called for by the climate objectives (50% RES in 2030, full decarbonisation by 2050). The characteristics of RES generation that need to guide the principles of market design are intermittency and high up-front capital cost with low short-run marginal costs. Accommodating those requires more granular electricity prices, locational pricing and a mechanism that properly rewards flexibility. Market coupling, harmonised framework for capacity mechanisms and regional cooperation are key features of the new market design.
- In principle, market coupling is open for participation from third countries. However, in order to be considered, those countries would need to implement large parts of the EU regulations on the electricity sector including, but not restricted to, unbundling and market liberalization. Currently, only Norway is fully included in EU market coupling. Switzerland is not included due to small deviations from the EU regulation. The Signatories of the Energy Community are preparing for an inclusion in the integrated EU electricity market.

- Sufficient interconnector capacities are a necessary condition for market coupling, scaling-up variable RES and increasing power system flexibility. The new Electricity Market Directive gives priority to additional investments in interconnection capacities.
- The highest benefits of cooperating with the EU could be reached if an SEMC fully participates in EU market coupling. The steps that SEMC could take to prepare gradually for market coupling include: (i) enter into bilateral or multilateral agreements with EU countries to increase electricity market integration<sup>3</sup>, (ii) start trading on EU MS electricity markets<sup>4</sup> and (iii) initiate liberalization of their national electricity markets, possibly with MS support through twinning programs for example.
- Physical transfers are necessary for benefiting from the cooperation mechanisms, and this will require additional interconnection capacity. Projects can be prepared to obtain the “Project of Common Interest” (PCI) status under the CEF. Currently, a planned interconnector between Italy and Tunisia („ELMED”) has been selected as PCI. The conditions to be eligible for the PCI statute for interconnections to third countries might be adapted as part of the reform of the CEF, especially if interconnectors are combined with RES projects.
- Discussants suggested that physical transfers may not have to be a requirement for cooperation projects. Moreover, market integration should not be limited to integration of southern countries with Europe but could be extended to South-South integration. That would require interconnection capacity and coordination of market rules and system operation.
- There was a general discussion on the forms that regional integration could take, and the underlying requirements, as well as the format of the formal agreement (treaty vs simple declaration). Integration and cooperation can start bilaterally (such as Tunisia-Italy) and can evolve to a multilateral cooperation (*à la West Balkan*) to eventually create a Mediterranean Energy Community.

### Session 5- Summary and Next Steps

- A general discussion resulted in some concrete recommendations on changes to be made to the paper to make it fully accessible and useful to SEMC, namely:
  - Better explain barriers to cooperation mechanisms and the reasons why Art 9 of RED was never called upon
  - Based on progress report, indicate which MS are likely to make use of cooperation mechanisms
  - State clearly what is already decided and what will be covered by secondary and tertiary legislation (also giving the definitions)
  - Better explain the steps to market integration and give examples (SET Roadmap, West Balkans initiative, etc..)
- There is a need for on-going monitoring of the CE4ALL Package, as so far only the primary legislation has been adopted, and secondary and tertiary legislation is still under development. Some kind of newsletter and dedicated website could keep the SEMC informed of all the relevant developments, including in NECP, so they can identify those MS with whom to cooperate. Some

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<sup>3</sup> An example for such an agreement is the SET Roadmap described earlier.

<sup>4</sup> The Moroccan electricity company ONEE is already trading on the Iberian day-ahead and intraday markets (MIBEL)

participants also suggested to organize a similar workshop in 9-12 months (could also become a regular annual event).

- Some participants suggested the creation of a platform for cooperation projects to help identify and then implement those cooperation projects.
- Finally, some participants, particularly the donors, would like to see some follow-up work on the interaction between the CE4ALL, the Euro-Med integration and the EU and SEMC climate policies (Paris Agreement implementation and NDCs).