



Revisiting the EU Energy Plan - and its coverage.

Posted by [Jerome a Paris](#) on January 13, 2007 - 12:00pm in [The Oil Drum: Europe](#)

Topic: [Policy/Politics](#)

Tags: [climate change](#), [eu](#), [europe](#) [[list all tags](#)]

Jerome also asks that folks please also read his most recent post on the topic: [The Economist on European energy: wishful thinking and outright lies](#)

[editor's note, by Chris Vernon] We have two articles today on the EU energy plan. Luis's take on it can be found here: [A New Energy Policy for Europe](#)

Now that the dust has settled and that the topic is already out of the news (displaced by Iraq, Beckham going to LA or the fact that oil prices are at record lows), it's time to revisit the EU energy proposals, by taking a look first at the original material (their [press release](#) and their attempt at responding to expected questions or objections on [their sector enquiry](#) and on [climate change goals](#)) and then at press commentary ([Google selection](#), summary articles from [Le Monde](#) and the [Financial Times](#), other coverage collected by **Fran** in the [Salon thread](#)).

Somewhat predictably, the EC dutifully, and valiantly, focused on climate change as the main priority, and that garnered most of the coverage from the superficial media (TV, press agency releases) which have understood that climate change "sells." However, the real action (identified, possibly, by the fact that the core documents are [only available in English](#)) focuses on energy markets "reform" and in particular the need for unbundling and other trustbusting measures to ensure competition. The more serious papers focus only on that aspect, ignoring the boring and expected climate change stuff - just like the stock market does not focus on the news of the day, but on how they were different from expectations. And the business world could not care less about climate change (except if it imposes financial costs on them) but does care about the juicy opportunities to be provided by unbundling, corporate restructuring and the like.

*(From the [European Tribune](#). an earlier "live" discussion thread by **kcurie** can be found [here](#))*

The press release:

Commission proposes an integrated energy and climate change package to cut emissions for the 21st Century

The European Commission today proposes a comprehensive package of measures to establish a new Energy Policy for Europe to combat climate change and boost the EU's energy security and competitiveness.

Climate change is mentioned explicitly in the title, and again first in the measures. Security and competitiveness seem like reasonable goals for an energy policy within the climate change combat. So far, so good.

The package of proposals set a series of ambitious targets on greenhouse gas emissions and renewable energy and aim to create a true internal market for energy and strengthen effective regulation.

This is where the trouble begins: there are targets for climate change and renewable energy, but the action will be on the internal market, which shows up quite early on, unfortunately.

The real priorities show up a bit further down, with the list of the "3 pillars" of policy. The first one (and, in practice, the only one) is again the (capitalised) Internal Energy Market.

The package proposed by the Commission today seeks to provide solutions to these challenges based on three central pillars:

1. A true Internal Energy Market
2. Accelerating the shift to low carbon energy
3. Energy efficiency

And that's what the papers of record focus on:

FT: EU readies for energy battle

Brussels to crack down on national power groups

Kroes may resort to antitrust legislation

Germany and France geared up for a battle to save their powerful integrated energy companies from being broken up after Brussels published plans on Wednesday to tackle "serious competition problems" in the sector.

The crackdown on the power giants is part of an energy policy aimed at boosting competition, fighting global warming and cutting Europe's "addiction" to oil and gas imports from countries such as Russia.

The European Commission wants to break the market grip of national energy incumbents, which it believes are stifling competition and deterring new market entrants, including suppliers of renewable energy.

Just a mention of climate change *en passant*: the focus is on the break up of the evil French and German utilities. Same perspective in Le Monde, with a French angle:

Bruxelles veut obliger les géants de l'énergie à plus de concurrence

La Commission européenne a jeté un pavé dans la mare, mercredi 10 janvier, afin de relancer le marché intérieur de l'énergie. Pour lever les blocages qui entravent la diversification de l'offre et la

Brussels wants to force more competition on the energy giants.

The European Commission threw down the gauntlet, this Wednesday, in order to relaunch the internal energy market. To eliminate the obstacles that prevent diversification of

production d'énergies nouvelles, le collège recommande aux Etats membres de dissocier les activités de production et de distribution de gaz et d'électricité détenues par les principaux groupes européens, comme EDF, GDF, en France, E.ON et RWE, en Allemagne. Après de longues tractations, c'est l'option la plus radicale qui a été retenue en dépit des avertissements répétés de Paris et de Berlin.

obstacles that prevent diversification of supply and investment in new supplies, the Commission recommends to government to unbundle production and distribution of gas and electricity and split the large European energy groups, lie EDF, GDF in France, or RWE and E.On in Germany, accordingly. After tense negotiations, it's the most radical option that was chosen, despite repeated warnings against it from Paris and Berlin.

The whole article does not say a single time 'global warming' or 'climate change', if you can believe it.

But, whereas the FT largely embraces the point of view of the Commission, Le Monde, of course, gives (slightly) more room to the French and German positions - not so much to support them, but at least to provide more context and more analysis of the conflict.

Neither newspaper, nor any other as far as I can ascertain, points out the contradictions in the stated goals of the EU, *despite these being flagged by the EU itself!*

Indeed, as I noted in the thread yesterday, the European Commission at least asks some of the right questions:

How is competition compatible with environmental goals?

How is competition compatible with security of supply goals?

I'll get to their answers right below, but they at least point towards the direction of the serious debate that would be needed. But nobody followed up - not that I could see anyway (I'll be happy to be contradicted by readers of other sources).

But let's go back to our two questions, because they are at the heart of all the things we discuss here on ET:

How is competition compatible with environmental goals?

Competitive energy markets will play a major role in developing and deploying new environmentally friendly technologies. Strong competition in the electricity market has a positive effect on the efficiency of power generation, because market players want to minimise costs and invest in efficient technologies. Renewable technologies would be better served by an increase in transparency, and by open, competitive markets. The larger the internal market, the more economies of scale can be realised.

As I wrote yesterday, all the above is just incantations, and does not constitute an argument. Two things are not addressed:

- Renewable energy would not be served by "open, competitive markets", it would be served by regulation that forces other forms of production to internalize externalities or, failing

that, by support mechanisms. These can be done within market mechanisms or outside them, but the pre-requisite is the internalisation/support, not the markets.

- More fundamentally, as I've said many times, the issue of the cost of financing is totally ignored. Technologies that require lower initial investments but have higher running (fuel) costs will have lower needs for financing. Conversely, those with high upfront investments will see the cost of their electricity be influenced most of all by the cost of financing. Pushing for market solutions here structurally favors the first kind of technology, as private sector funding costs are higher than those of public sector, or at least public-supported financing. And the first kind of technology includes gas-fired plants and coal-fired plants, whereas nuclear and most renewables are of the second kind. Thus the market can be expected to build gas-fired power plants, or coal-fired ones. and that's *exactly* what it does.

The internal energy market does nothing to internalize externalities, *in particular those associated with global warming*, and it actually favors the wrong kind of technologies (high carbon) for structural financing-related reasons.

These points are addressed nowhere.

How is competition compatible with security of supply goals?

Europe needs stable relationships with the main producers outside the EU. But this does not and must not prevent us from ensuring an integrated competitive market inside the EU. An open and competitive, liquid and interconnected, single EU market will guarantee a secure provision of energy in the future, as it will make the European market attractive for external suppliers. Such a market will also be open to new energy mixes.

Again, incantations without arguments. Two points again:

- No commentary on the fact that open markets encourage (as shown above) the construction of gas-fired plants, thus naturally increasing the demand for gas, and the need to import gas, and the reliance on Russia.
- The focus is absolutely on supply, and makes no mention of demand. As always, demand is taken as given, driven by economic activity and growth (and the perspective of lower energy prices which is dangled in front of us as the main justification for the Internal Energy Market), and not to be acted upon. Despite energy efficiency being one of the 3 main goals (with a target of 20% lower primary energy use), the link is not made here, where it would matter.

Thus one is left with the impression that the goals are just for the show, while the only thing that matters in practice is to break up companies like EDF - despite the fact that France has by far the lowest wholesale electricity prices, according to the EU's own statistics...

The response of the French minister for industry, quoted in the FT, is nicely succinct: "our system works". And as Le Monde noted (and as does the FT in [one of its blogs](#)) the hostility of the two main countries of the EU ensures that these proposals are dead on arrival, and that this whole thing is just for show.

So we are left with grand announcements and somewhat ambitious targets that go in the right direction, but an absolute impasse on the implementation, with the business world and the European Commission stuck on their mantra of "improving the Internal Energy Market" and "competition" despite the fact that these will - and already - achieve the exact opposite of what's targeted.

Nothing will happen with this Commission. We'll go on hearing the same arguments, I'll spend more time deconstructing the same stupid articles, we'll have more confrontations with Russia, with EDF or similar beasts that lead to nothing useful (but do cause a slow erosion of what made the French model work), and we'll keep on moving towards the abyss.

Sigh.



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