

The phoney debate over competitiveness *versus* energy

Energy costs don't hold the key to Europe's competitiveness says **Jürgen Trittin**, a former German environment minister. He argues that it's energy efficiency and renewables that will lower import dependency

The complaints by the European industry lobbyists that energy costs are putting them at a "destructive" competitive disadvantage simply doesn't stand up to scrutiny. Industry lobbyists will say either that the costs of labour are too high, or that their big problem is the price of energy. America's historically low gas prices are at present the cause of yet more European moaning.

But it's a lament that rarely holds up under examination of the facts. All too often, these complaints are part of a lobbying campaign that is essentially political. And when that's not the case, we usually find there's a lot of money at stake in industries that are reluctant to invest in adjusting to future challenges. And even when corporate leaders know that these investments are necessary, a majority of them still believe the cost should be paid by the taxpayer. That leads them to threaten using their deadliest weapon, the threat of job cuts and the relocation abroad of their factories and production operations.

The facts show how wrong they are. Energy costs account on average for less than 3% of gross production costs in Germany, whereas staffing costs account for about 20%. Even if you look at shares of gross value creation, the energy costs don't exceed the 10% mark. Yet, industrial lobbies and trade associations continue to prophesy the end of the Western world.

People, especially in Germany, like to hold the costs of the ambitious transformation of our energy system – the "Energiewende" – responsible for rising energy prices. This is mainly in relation to electricity prices, as oil is traded globally and the oil price for companies, say, in America is structured identically.



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But the price of electricity for industry in countries like Germany has actually decreased in recent years. Electricity prices at the EEX energy exchange in Leipzig are now at their lowest point for eight years. This can be attributed mainly to the huge expansion of renewables, and also to the surplus of cheap coal-fired electricity, which in turn is causing CO₂ emissions to soar, along with the costs of unchecked climate change.

Apologists for waning industrial competitiveness fall silent once a closer look is taken at the current account balance of payments. For years, praise for Germany as the world's export champion has been just as loud as complaints that industry's electricity prices are too high. Of course, the two don't add up. Compared to the rest of the EU, Germany's electricity prices have always been slightly higher, but this hasn't stopped us from chalking up economic growth and trade surpluses, while also hugely reducing energy intensity and primary energy consumption by more than 35% over the last 25 years.

The German Institute for Economic Research (DIW) has rightly pointed out that once again Germany has disproved the theory that "low energy prices equal reindustrialisation". In spite of slightly higher comparative industrial electricity prices, the Federal Republic of Germany has for several years been seeing reindustrialisation. The driving forces behind this are chiefly efficient environmental and renewable energy technologies. Looking at Europe as a whole, 2013 was the year when the eurozone had the largest current account surpluses since 1997.

The industry lobby nevertheless continues to complain, largely because of developments in the U.S. energy market. The U.S. may have been able to curb energy prices through the aggressive exploitation of shale gas reserves, but for society as a whole, the effect of those efforts when measured in terms of the environmental aftermath and the failure to modernise, has been horrifyingly negative.

It now looks as if the real reason behind the lobbying campaign by various industries is the upcoming decision on what targets to set for Europe's post-2020 CO₂ emissions reduction, even though these are unlikely to be very ambitious. Instead of a 40% decrease, the bare minimum should be a 55% reduction in the EU by 2030 if we want to uphold the 2°C target. But this isn't looking promising,

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and doubtless we will have to foot the bill for this lack of resolve in a few years' time.

The real risks to competitiveness lie elsewhere. All of Europe is dependent on fossil fuel imports, and not just from Russia. Every year, Europe imports €0.5 trillion worth of coal, oil and gas, along with uranium. Some 84% of the oil used in the EU is from outside of its borders, and for uranium, the figure is 100%, of which a fifth comes from Russia. For natural gas, the import figure is 45%.

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The European Union is thus indulging in a prosperity transfer of absurd proportions. This dependency is a real challenge, especially as Europe's scope for diplomatic action in its dealings with Russia proved to be very limited when it came to the breach of international law in Ukraine. Europe's sovereignty is endangered by its staggering reliance on imports, and it is certainly not in the interest of industries to be reliant for their energy upon unreliable partners. If we want to break away, though, we must try to counteract our import dependence. One proposed solution is hydraulic fracturing or “fracking” of shale for gas, but it's a particularly dubious idea, and not just from an environmental viewpoint. It is not an option for Europe, and to suggest that a battle with the U.S. over energy prices can be won by increasing the exploitation of Western Europe's fossil reserves is very naïve.

The key issue at hand isn't the availability of fossil fuels; adequate energy supplies are still available, with many yet to be discovered, so we can, if we choose, continue down the misguided path of fossil-based production and energy supply for another 100 years or so without seeing an exorbitant price explosion. The environmental problem is a far more serious one. If we continue burning coal, oil and gas for as long as it remains affordable, then we can kiss our climate goodbye.

The true limit in using finite natural resources doesn't lie in their availability. It lies in the fact that extracting, using and burning them is causing catastrophic environmental damage worldwide. If you convert the 2°C climate protection target into quantities of CO₂ that we can still actually emit globally, you have a “budget” of around 800 gigatons. Put simply, from that standpoint not even

half of the reserves of oil, gas and coal which could be extracted today can even be burnt.

We must counter the battle cry of Tea Party activists in the U.S. of “Drill, Baby, Drill” with a counter-cry of “Chill, Baby, Chill”! Leave the stuff where it is; underground. On top of this, there are other natural resources whose use and extraction also relate to the climate crisis. Producing and processing steel, cement, paper, plastic and aluminium, accounts for around half of industrial CO₂ emissions. Unconventional extraction of oil and gas is ecologically harmful for many other reasons as well. It consumes far more energy and water than conventional extraction, and it damages the environment and groundwater at the site of extraction. Oil sands extraction in Canada accounts for 40% of Canadian CO₂ emissions, with fracking also consuming huge quantities of water.

Mining, which is sharply increasing around the world, is generally connected with destruction of the countryside, the production of slag and waste, and energy and water consumption. Air is polluted, soil contaminated, forests axed, seas contaminated by deep-sea drilling, countryside destroyed by opencast mines. This isn't the worst dependency, because for a host of resources just a few countries, sometimes only one, control the market. The Democratic Republic of Congo, for instance, supplies around half of the cobalt extracted worldwide, that we need for batteries, smartphones or electric cars. The working conditions there are life-threatening and exploitative, so we cannot import this resource with a clear conscience.

The American focus solely on increasing the gas supply will not solve any problems for Europe; at best it delays them by a few years. Worse, it results in increased energy consumption and at the same time reduces the incentives for energy efficiency and energy savings. Right now, a temporary increase in supply from the U.S. as the future main gas exporter could exert downward pressure on world gas prices, including in Europe, but in the medium-term, the upshot will be a greater thirst for energy. In any case, quenching energy demands will not be easy, while rising CO₂ emissions will exacerbate climate change on an ever more massive scale. It should be clear that the U.S. hasn't found a solution, but instead another global time bomb.

The answer to the challenges facing Europe's competitiveness can be summed up in four steps. First, the expansion of renewables will stabilise electricity prices, increase security of

supply and lower the downstream costs of climate change and high-risk technologies like nuclear power. And, second, by raising energy efficiency we will lower the already relatively low share of gross production costs that result from energy costs, and we'll be leveraging our technological edge systematically to expand Europe's market position.

Third, significant savings can come from modernising buildings to make them more energy efficient, and by reducing vehicle energy consumption. As well as these savings, there are huge investment possibilities, especially for medium-sized enterprises, and there are also innovation possibilities for Europe's carmakers. Finally, the need to become less dependent on energy imports is clear. That would keep value-added inside the EU, and do much to bring about the stable prices, reliable overall conditions and technological innovation that industry has been calling for. These are the real competitiveness factors. ■

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Commentary

Agreed; but surely the basic problem is EU states' divergent energy policies



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Energy prices are key to the EU economy and the overall well-being of society. As well as factors like productivity, innovation, labour costs and the legal environment, energy prices are an important indicator of an economy's competitiveness, which is why this issue has gained momentum over the last few years. It is also a highly sensitive topic that's often dominated by ideology and caricatures. So there is a critical need for reality checks and independent analysis based on facts and figures. To better understand the complex challenges addressed by Jürgen Trittin, and to get a clearer picture of the real costs

of energy transitions in Europe, a few preliminary clarifications seem called for.

Jürgen Trittin is right about a number of the issues that need emphasis. High energy prices are not only by driven environmental regulation but by taxes and levies, and also by transportation and fossil fuel costs, with the latter representing a growing part of the EU's trade deficits. The energy price debate also goes far beyond the U.S. shale gas picture, for although there are clear EU-U.S. price differentials for gas, shale isn't a silver bullet that will decrease energy prices in Europe. If fossil fuels have a role to play in Europe's

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energy transition, it will be mainly as a bridge technology: I say that confidently because the actions needed to tackle climate change cannot wait until present resources are totally depleted before others are developed that can ensure the energy transition.

A point Jürgen Trittin misses, though, is the diversity of energy profiles and realities within the EU. The EU's internal energy market has to some extent contained energy price increases, especially for wholesale electricity markets, but nevertheless clear it is that energy in Europe will not be cheap for the foreseeable future. There are also huge disparities still to be addressed between EU member states, and within industries. Most German manufacturing companies spend an average of 1.6% of their turnover on energy, but for industries like aluminum, steel, cement, paper, chemicals and glass, anywhere between 10% and 25% of their sales revenue is accounted for by energy inputs.

Germany's "Energiewende", is often hailed, perhaps too often, as 'the' reference for a successful energy transition, and Jürgen Trittin himself advances that argument. Certainly it's an impressive project, with huge implications for Germany, for its neighbours and for the EU as a whole, but it a unique case that cannot easily be duplicated in other countries. Lessons need to be drawn from both its successes

and failures. Developing renewable energy technologies on a large scale in Germany and elsewhere in the EU has yielded many benefits, as Trittin rightly points out, but it has also raised issues that need to be addressed thoroughly, notably the integration of renewables into the market and into the grid.

Some industries in Europe have improved their energy intensity to an impressive degree, but in several areas there is still much progress to be made. Efficiency technologies are key to the EU's ability to cope with high energy prices while achieving its energy transition. There is still a wide gap between expectation and reality, with much untapped potential in economies of scale and the improvement of existing technologies. EU countries in central and eastern Europe are still behind, and need greater EU support if they are to reach the European average.

The key challenge is going to be the level of the EU's ambition for becoming a low-carbon economy, and doing so in a cost-effective way. As well as being a question of political will, economic strategy, and industrial vision it's going to need a strong consensus within the EU on who should pay for what in Europe's energy transition. ■