Briefing: EU Energy Prices and Costs

February 2014

Introduction

This document analyses the European Commission's Communication *Energy Prices and Costs in Europe*[1], and it identifies the main conclusions.

The Communication aims to identify the main drivers that influence electricity and gas price increases. Additionally, the European Commission (EC) compares EU prices and costs with those in competing countries, such as the US, China, Brazil and Mexico. Based on these statistics (mostly Eurostat figures from 2008 to 2012), the EC outlines the effects of energy prices on industrial competitiveness and private households' capacity to bear increasing energy prices, trying to provide solutions to control price increases.

Key conclusions of the communication

Conclusion 1: For manufacturing sectors, differences in tax structure and labour costs, as well as shifting consumer trends and local market conditions are far more relevant factors in investment decisions than increases in energy prices and climate policies in Europe.

Conclusion 2: For the past 5 years, electricity prices have increase on average at 4% per year for household and 3.5% annually for industry. The major contributor to energy price increases is the commodity price of fuel, and not support to renewable energy deployment.

Conclusion 3: European energy intensive industries will lose 10% of global market value until 2035. Such loss is not due to low energy prices in the US, but rather by industrializing countries, including China, that are competing with developed countries in all areas of the economy.

Conclusion 4: The cost of energy is increasing at a much lower rate than prices, thanks to energy efficiency and consumer behaviour.

Deeper analysis

CAN Europe acknowledges that energy prices (electricity and gas) have experienced a significant increase in the last 5 years across most Member States. These substantial changes are, however, not driven by support to renewable energy and/or climate policies, as Business Europe and Eurelectric have repeatedly claimed.

Electricity prices, as the EC indicates, are formed by 3 main elements: the energy element (which includes the cost of fuels, operations, construction of power plants and dispatch to consumers); network tariffs; and taxes and levies. While the energy element is the most important component (over 50% of total price), it has remained almost constant in recent years. In fact, the increased penetration of technologies with very low operating costs, such as solar and wind power, in combination with overcapacity, has decreased wholesale electricity prices, which in principle

1 [COM(2014)21], EC Communication *Energy prices and Cost in Europe*

should have brought consumers' energy bills down. In practice, however, the lack of competition in the market - in many Member States the retail market is under monopoly or very concentrated - does not allow this effect to be reflected.

On the other hand, taxation is the element that has increased the most. While some tax components are dedicated to supporting renewables (RES) and energy efficiency, most of them are oriented to increasing state revenues. The part dedicated to RES can range from 16% of household energy bills in Germany to less than 1% in Ireland, Poland and Sweden, for example. Taxes in Europe for gas and electricity are on average higher than in other regions. The EC outlines that cost of renewable energy added to retail prices constitutes 6% of the average EU household electricity price and approximately 8% of industrial electricity price, before taking exceptions into account.

In any case, what matters most is cost and not so much the price. The cost of energy is increasing at much lower rate than prices, thanks to energy efficiency and consumer behaviour. On the industrial side, most sectors have actually not been affected by price increases thanks to tax exemptions, long-term contracts with a fixed price and improvements in productivity largely through energy efficiency.

While the overall share of energy intensive industries in European GDP is falling, the EC concludes that it is not possible to attribute this change to energy price factors alone. Recession, structural changes in the world economy and corresponding global shifts in consumer demand are also important factors. Many other factors have played a role, including labour costs and the attractiveness of markets outside the EU, driving investments to those markets.

The EC refers to an analysis from IEA[2], where they foresee the EU experiencing a loss of global market value of energy intensive industries. However, the IEA also expects the EU to remain the single biggest exporter of energy intensive goods until 2035, with around 26% of the market share. While this is a 10% reduction from today, the loss is not due to low energy prices in the US, but rather by industrialising developing countries including China that are competing with developed countries in all areas. This fact is unfortunately not reflected in the Commission's draft analysis.

The Commission's analysis confirms the findings of the 2050 Energy Roadmap[3] that fossil fuel prices are expected to continue to rise and drive energy costs. Specifically for electricity, cost increases until 2020 will be driven by rising fossil fuel costs coupled with needed investment into infrastructure and generation capacity. Beyond 2020, costs will stabilize and then slightly decrease as fossil fuels are replaced by renewable energy. This is a very important consideration, as European policy should aim to maintain or increase the EU's industrial competitiveness not only in the short but also in the long-term.

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2 World Energy Outlook 2013 Factsheets, International Energy Agency
www.iea.org/media/files/WEO2013_factsheets.pdf
3 COM(2011) 885, Energy roadmap 2050, European Commission (2011)
http://ec.europa.eu/energy/energy2020/roadmap/index_en.htm

Overall conclusions and recommendations

Overall, the communication on EU energy prices and cost is balanced, fact-based and does not support the misleading argumentation lines of Business Europe and Eurelectric. In fact, it contains a number of recommendations that we as CAN Europe support, including:

- Using social or industrial policy to protect vulnerable consumers rather than energy pricing;
- Making use of guided state-aid to continue supporting RES penetration and energy efficiency without inflicting a big burden on consumers;
- Implementing stronger energy efficiency measures to keep energy costs low;
- Calling for increased efforts to create a level playing field with other competing regions through WTO rules, eliminating subsidies to local industries and removing exports restrictions.

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Climate Action Network Europe is Europe's largest coalition working on climate and energy issues. With over 120 member organisations in more than 25 European countries, CAN Europe works to prevent dangerous climate change and promote sustainable climate and energy policy in Europe.