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High energy prices for industry occupy officials at EU summit

By Joshua Chaffin in Brussels

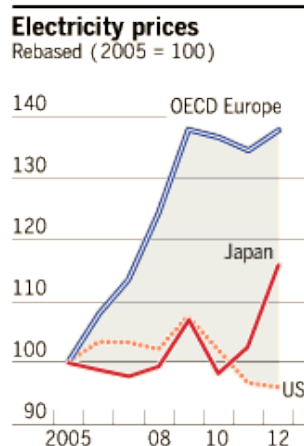
The portion of Wednesday's EU summit that will be devoted to energy policy could be boiled down to a single, eye-popping chart that has been making the rounds in Brussels over the last week.

It tracks electricity prices – excluding taxes – for industry in the EU, US and Japan. From a common point in 2005, three lines diverge widely to reflect the fact that prices in Europe are now 37 per cent higher than those in the US, and almost 20 per cent higher than those in Japan.

That chart captures a growing fear in Europe that rising [energy prices](#) now pose a threat to the industrial competitiveness of a region mired in recession. It has been driven home by a steady stream of announcements from European manufacturers about plans to build new production facilities in the US.

Yet while there is broad agreement about the problem, there does not appear to be an obvious lever that politicians can pull to remedy it. “Coming up with simple, short-term solutions in energy is not something that I think is easily available to the [European] Council,” said Pat Rabbitte, energy minister for Ireland, which is the current holder of the EU's rotating presidency.

Take [shale gas](#). It has been widely credited with plunging energy prices in the US. In a nod to shale gas, EU leaders are expected tomorrow to agree on the need “to develop indigenous energy resources”.



Source: European Commission

Yet recent exploration has suggested the geology may be less promising in Europe than previously believed. The unconventional drilling techniques used to access shale gas also face formidable environmental resistance.

“There are concerns,” Mr Rabbitte said, adding that it was still “too early to say where [the shale debate] will settle”.

For the European Commission, the EU's executive arm, the priority has been to create a robust single market for gas and electricity. A

liberalised market in which energy supplies could easily flow among all 27 member states should increase competition, lower prices and improve security of supply.

Repeated waves of legislation and [enforcement actions by the commission](#) have delivered some progress. The EU has also put up money to build links to connect pipelines and other infrastructure.

Yet, according to Georg Zachmann, an analyst at the Bruegel think-tank, Brussels is still a long way from stitching a patchwork of national markets into a European whole.

“There is a widespread fear of the internal market in the energy sector,” Mr Zachmann said. “Governments fear the lights will go out if they lose control.”

A recent study by Deloitte revealed that companies in Flanders in Wallonia were facing energy prices that were 12 to 45 per cent higher than those in neighbouring countries – hardly the sign of a healthy market.

In spite of their public pronouncements, member states appear to be increasingly going their own ways on energy policy – a trend at odds with the deeper economic and fiscal integration that has emerged from the euro crisis.

Subsidy programmes to encourage renewable energy, for example, differ from one government to the next. They also employ varying tax regimes and schemes to pay utilities, depending on which part of society they aim to please.

Germany, for example, holds down industry’s energy costs by shifting them on to consumers – a practice that has caught the attention of regulators in Brussels. France, on the other hand, keeps prices low for consumers at the expense of its state-controlled utilities.

The fear in the industry is that the problem could become even worse. With the [EU’s carbon market in shambles](#), national governments – and even some local ones – are increasingly mulling separate climate policies to curb greenhouse gas emissions.

“We are ignoring the benefits of European co-operation,” said Fulvio Conti, the chief executive of [Enel](#), the Italian utility. “We need more Europe – we don’t need less Europe.”

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