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Europe's green commitment problem

As energy prices in Europe are soaring, governments need to provide not just short-term relief, but make substantial commitments to decarbonisation

Europe's gas prices are breaking one record after another. In recent days, prices have seen a near vertical rise to historical highs, motived by a perfect storm of a very cold winter last year, a greater demand for the economic recovery after Covid-19 and a peak in the EU carbon price. The latter has its roots in the EU's 2018 reform of the carbon market, which subsequently triggered market speculation. As if that were not bad enough, Russia's gas exports to Europe have recently slowed down – putting even more pressure on the supply.

The hike in gas prices affects the price of electricity as well. The marginal system in most European countries means that, as Politico explains, 'the final price of electricity for the following day is pegged to the price of the most expensive fuel required to meet projected demand'.

These problems that could endanger the viability of the green transition. In August, US President Biden already encouraged the OPEC to increase oil production to stave off rising gas prices. Importantly, however, it will also affect household budgets and the wellbeing of citizens across Europe during the coming winter.

That is one of the greatest challenges according to the Executive Vice-President for European Green Deal, Frans Timmermans, who remarked the importance of 'ensur[ing] that the price effect does not affect the most vulnerable' and 'that we use the age-old political instrument of redistribution'.

The Spanish way

Here, Spain's progressive government led by Prime Minister Pedro Sánchez is showing the way forward. Thanks largely to popular pressures, it has proven an initial political determination to undertake ambitious reforms, such as curtailing the exceptional profits of energy companies,

which see their profits rise as the gas price increases in a marginal system.

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That's why Sánchez has launched a new plan that involves a 'structural reform to promote cleaner and cheaper energy' and 'measures to protect the most vulnerable households'. Sánchez also has implemented a considerable VAT reduction (from 21 per cent to 10 per cent) and plans to cut more electricity taxes. This reduction is temporary and is intended to last until the end of the year. The goal of all these measures is that consumers will pay in 2021 a similar price as they did in 2018.

The government's critics have accused Pedro Sánchez of not being committed enough to the European Green Deal. For instance, the Financial Times warned that it 'could crimp the incentive for utility companies to invest in green energy'. But this conclusion is based on a false dilemma: it is perfectly possible to limit big corporations' profits to protect the general public and to accelerate the dynamics of the green transition.

The importance of public investment

A way to do that is by increasing public investment. As pointed out by the European think tank *Bruegel*, 'there are more fundamental reasons' for 'excessive price spikes' because 'governments have not yet committed clearly enough to a low-carbon future. So, the energy supply-demand balance in the EU will be volatile depending on how quickly fossil fuels are phased out and green energy is phased in'. The problem, then, is not just one of supply and demand, market volatility, and geopolitics. It is one of commitment to and speed of the green transition.

It is still possible for Europeans to achieve a green transition that could be a model for the world. The European Council on Foreign Relations reached a similar conclusion stating that 'if Europeans reduce their carbon emission to net zero by 2050 in a socially just way, this could provide a platform for the EU to become a global leader on climate norms and green technology'. The EU could not only lead the way among the rich countries, but cooperate and help the poorest or most vulnerable countries to achieve a green transition. Apart from being a moral mandate, it is essential for the maintenance of international peace and security.

However, new investments should look for the general public's interest

and governments should foster competition and undertake anti-trust measures to create a mixed economy, in which alternatives could operate successfully, like more medium-size enterprises, self-consumption, or even new public entities.

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Spain, for instance, is rapidly in building up solar power for self-consumption. It is also considering the establishment of a public energy company, which would also be used to build more green energy capacity. That would be a great step forward as previous governments have privatised the electricity sector, which has arguably caused many of Spain's current problems in energy provision.

Europe needs to be ambitious

It remains to be seen whether the Spanish government has sufficient political determination to face the unpleasant practices of the energy lobby. The latter is using a strategy of intimidation to paralyse ambitious measures. Recently, Spain's largest electricity companies have aired threats of closing nuclear power plants in Spain. In response to this challenge, the Minister for Ecological Transition, Teresa Ribera, has responded ambiguously to reassure the electricity companies.

At the European level, countries are also beginning to understand the magnitude of the problem, offering aid to households and thinking about reform of energy markets. The EU's carbon market was designed as a 'key toll for reducing greenhouse gas emissions'. That's certainly a necessary tool, but it's near impossible to achieve a sustainable transition if the state does not play a more active role. Of course, all these short-term measures are important, but the EU must understand that if it wants to seriously tackle the problem, the best way to do this is increasing investment in renewable energy – showing ambition and building trust in rapid decarbonisation.

This is a big challenge that needs to be taken seriously. In the words of the UN Secretary-General, António Guterres, the last report published by the Intergovernmental Panel on Climate Change (IPCC) was 'code red for humanity'. The world is on the brink as 'greenhouse gas emissions from fossil fuel burning and deforestation are putting billions of people at immediate risk'. It's high time for governments to respond to Guterres' apocalyptic messages with a substantial, investment-led commitment to the socially just green transition.



Isa Ferrero

Isa Ferrero is a Spanish writer and energy engineer specialising in Western foreign policy, climate change and liberalism. He has written previously for Open Democracy, Progressive International, El Salto and Público.