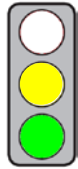


KEY ISSUES

Objective of the Communication: The Commission reports on the trends in electricity and gas prices in the EU and the resulting impact on the international competitiveness of EU companies. It also proposes measures to reduce the electricity and gas prices in the EU.

Affected parties: Whole economy, particularly energy-intensive companies.



Pro: Energy costs can be reduced by considering the cost efficiency of energy-related and environmental measures implemented by the Member States. This has a positive effect on growth and employment and increases Europe's attractiveness as a business location.

Contra: The proposed state promotion of energy efficiency distorts the investment decisions of households and companies.

CONTENT

Title

Communication COM(2014) 21 of 22 January 2014: **Energy prices and costs** in Europe

Brief Summary

► Context and objectives

- The rising price and cost of fuels in the EU
 - places a burden on private households and companies and
 - jeopardises the EU's competitiveness on the international market.
- The lack of "consistent and complete data in the energy sector" has so far made it difficult to assess the impact of policy measures in this sector (p. 2).
- In order to provide policy-makers with a "solid" informational basis (p. 2), the European Commission is analysing the trends and causes of the rising price and cost of energy
 - as regards electricity and gas,
 - but not as regards coal and oil because these prices are formed on the global market and are just about standard for consumers internationally.

► Definitions

- The "energy price" - hereinafter: "electricity price" or "gas price" - refers to the amount which the consumer has to pay for a specific amount of electricity or gas. It is made up of three "energy-price elements" (p. 3):
 - The "energy element" is determined by
 - the "wholesale price" which covers the cost of energy procurement and the operating and decommissioning of power stations, and
 - the "retail costs" arising from sale to the end customer.
 - The "network element" is determined by the cost of building and expanding, as well as maintaining, the transmission and distribution grid.
 - The "taxes and levies element" is determined by general consumer taxes such as value added tax and "specific levies to support targeted energy and/or climate policies".
- "Energy costs" correspond to the energy price multiplied by the amount of energy consumed.

► Price trends for electricity and gas in the EU

- In the EU, between 2008 and 2012, there was an annual increase in (p. 4)
 - the average electricity price of 4% for households and 3.5% for industry,
 - the average gas price of 3% for households and less than 1% for industry.
- Electricity and gas prices differ significantly between Member States, individual sectors and the various price components.
- The "energy element" of electricity and gas prices remained constant for households and companies between 2008 and 2012; as a proportion of the price of electricity and gas, it is declining.
 - Although wholesale prices have fallen due to
 - increased competition,
 - a fall in the price of CO₂ emission rights and
 - the expansion of production capacity with lower operating costs such as wind and solar power,

- the changes in the wholesale prices are only reflected in the retail electricity and gas prices in those markets which are sufficiently deregulated and do not have retail price regulation - such as the UK, Belgium and Holland (p. 7).
 - The "network element" of electricity and gas prices increased for households and companies between 2008 and 2012, but differs markedly between the Member States. The Commission puts the differences down to differing national practices regarding network tariff regulation as well as to "physical differences in the networks" (p. 9).
 - The "taxes and levies element" of electricity and gas prices increased significantly for households and companies between 2008 and 2012. In particular, national levies, e.g. to finance energy and environment policy, have risen.
- **Cost trends for electricity and gas in the EU**
- For the consumer, the cost of electricity and gas is more important than the price.
 - Energy consumption has fallen due to an increase in energy efficiency. This counteracts the rising prices.
 - Nevertheless, between 2008 and 2011, the cost of electricity and gas for private households, and the cost of electricity for industry, went up. However, the cost of gas for industry went down.
 - Since access to standardised data on the energy costs of energy-intensive companies is "not easy", it is worth looking at "energy-intensive industries in detail" (p. 11).
- **International competitiveness**
- The gap has widened between electricity and gas prices in the EU and that of other industrialised countries (p. 11):
 - The EU electricity price
 - is twice that of the US
 - 20% higher than in Russia,
 - 20% lower than in Japan.
 - The EU gas price
 - is three to four times that of Russia and the US,
 - 12% higher than that in China and Brazil,
 - lower than in Japan.
 - EU energy-intensive goods still "dominate" global export markets but its share is likely to fall as a result of rising energy prices. (p. 12)
 - However, the fact that companies are relocating to countries outside the EU is not the result of growing differences in energy costs but is due to other factors such as
 - the European economic crisis,
 - the attractiveness of markets outside the EU and
 - high labour costs in the EU.
- **Measures to reduce energy costs**
- According to the Commission, the cost of electricity and gas imports can be reduced by
 - a further improvement in energy efficiency, for example by way of the strict implementation of the Energy Efficiency Directive (2012/27/EU, see [cepPolicyBrief](#)),
 - "promoting energy efficiency internationally",
 - diversifying energy supplies and supply routes,
 - EU negotiations with exporting countries.
 - Member States will assess the cost-efficiency of their energy and environmental measures and coordinate them with existing EU guidelines on state intervention in the environment and energy sector [C(2013) 7243; SWD(2013) 438, see [cepPolicyBrief](#); SWD(2013) 439, see [cepPolicyBrief](#)].
 - There are great variations between the Member States with regard to network charges for using electricity and gas lines. These differences will be removed by way of "European convergence in network practices" (p. 14).
 - "Fiscal transfers" as well as exemptions and reductions in taxes and levies could improve the competitiveness of energy-intensive EU companies as compared with non-EU companies.
 - The requirement for this is compliance with
 - state aid rules (see [cepAnalysis](#)) and
 - the internal energy market rules, particularly the Internal Electricity Market Directive (2009/72/EC, see [cepPolicyBrief](#)) and the Internal Gas Market Directive (2009/73/EC, see [cepPolicyBrief](#)).
 - According to the Commission, however, there is a need to consider the fact that partial or full compensation granted to energy-intensive companies - e.g. for financing renewable energy support -
 - will place a heavier burden on all other energy consumers,
 - will distort competition in the internal energy market due to national application of the compensation rules,
 - will reduce the direct incentives on energy-intensive companies to save energy.

Policy Context

European energy policy is defined by the "Energy Policy Triangle" whose main objectives include – in addition to sustainability and security of supply – the cost-effectiveness of the energy system [COM(2007) 1, see [cepPolicyBrief](#)]. In the non-binding guidelines on generation adequacy in the internal electricity market [SWD(2013) 438, see [cepPolicyBrief](#)] and on the design of renewable energy support schemes [SWD(2013) 439, see [cepPolicyBrief](#)] and the accompanying communication on the "Completion of the internal electricity market and making the most of public intervention" [C(2013) 7243], the Commission calls on the Member States to take cost-effective policy measures to achieve the energy and environmental objectives. In addition, the Commission's Directorate General for Competition has submitted draft mandatory guidelines under which it wants to assess, between 2014 and 2020, whether state subsidies in the environment and energy sector are compatible with EU competition law [see [cepAnalysis](#)]. This includes policy measures on compensation for energy-intensive companies. In December 2013, the EU Commission initiated a state aid case against Germany in which it examined inter alia whether compensating energy-intensive companies for funding renewables was compatible with European law ("EEG-Surcharge", Section 40 et seq. Renewable Energy Act (EEG)).

Options for Influencing the Political Process

Directorate Generals: DG Energy (leading)

ASSESSMENT

Economic Impact Assessment

Ordoliberal Assessment

The lack, identified by the Commission, of "consistent and complete data" on trends in energy prices and elements of energy prices, is due to a lack of standardised procedures for collecting this data in the Member States. Harmonising the collection of this data would increase the quality of the informational basis from which suitable policy recommendations could be derived.

Impact on efficiency and individual freedom of choice

The Commission rightly points out that rising energy prices do not necessarily lead to rising energy costs if companies and households have the ability to reduce their energy consumption by investing in energy efficiency. The costs arising from such investment must, however, be taken into account proportionately in the calculation of the annual overall costs.

Every household and every business should decide independently whether or not investment to increase energy efficiency will be worthwhile in the long term. **The state promotion of energy efficiency, proposed by the Commission, distorts the investment decisions made by households and companies** because it also increases the attractiveness of energy efficiency measures whose energy saving potential is too small to cover the investment costs.

Although greater diversification of energy supply, particularly on the gas market, may also lead to more competition and thus via lower prices to cost reductions, when making the investment decision, these advantages must be balanced against the costs of the necessary expansion in infrastructure.

The rise in energy prices, as the Commission correctly points out, is principally due to an increase in taxes and levies which are used, in particular, to finance energy and climate policy measures. **If, as the Commission suggests, greater consideration is given to the cost efficiency of energy-related and environmental measures implemented by the Member States, taxes and levies to finance these measures, and thus also the energy costs, will fall significantly.** This also includes, in particular, a more efficient design and greater europeanisation of the support for renewables (see [cepAnalysis](#)).

A "European convergence" of network charges in the EU is only possible to a limited extent due to the cost differences involved in the expansion and maintenance of the networks as well as the variations in consumer density in the EU. Measures for greater harmonisation of the criteria for determining network charges may, however, give rise to greater transparency in the setting of network charges.

"Fiscal transfers" and exemptions from taxes and levies may reduce the detriment suffered by energy-intensive companies due to energy prices when competing with non-EU companies on the international market. The Commission correctly points out, however, that the burden of taxes and levies will increase for all other consumers as a result and that varying national rules on compensation may distort competition on the internal market.

Impact on Growth and Employment

Rising electricity and gas prices increase the cost of production in the EU. **Measures which reduce electricity and gas prices thus have a positive effect on growth and employment.**

Impact on Europe as a Business Location

Electricity and gas prices are crucial factors in a company's choice of location. **Measures which reduce electricity and gas prices thus increase Europe's attractiveness as a business location.**

Legal Assessment

Legislative Competency

Unproblematic. The EU is entitled to adopt energy policy measures in order, inter alia, to ensure the functioning of the energy market and ensure security of energy supply (Art. 194 TFEU).

Subsidiarity

Unproblematic.

Proportionality

Unproblematic.

Compatibility with EU Law in other Respects

Unproblematic.

Impact on German Law

Not yet apparent.

Conclusion

The proposed state promotion of energy efficiency distorts the investment decisions of households and companies. Energy costs can be reduced by considering the cost efficiency of energy-related and environmental measures implemented by the Member States. This has a positive effect on growth and employment and increases Europe's attractiveness as a business location.