

Neoclassical vs. environmental economics

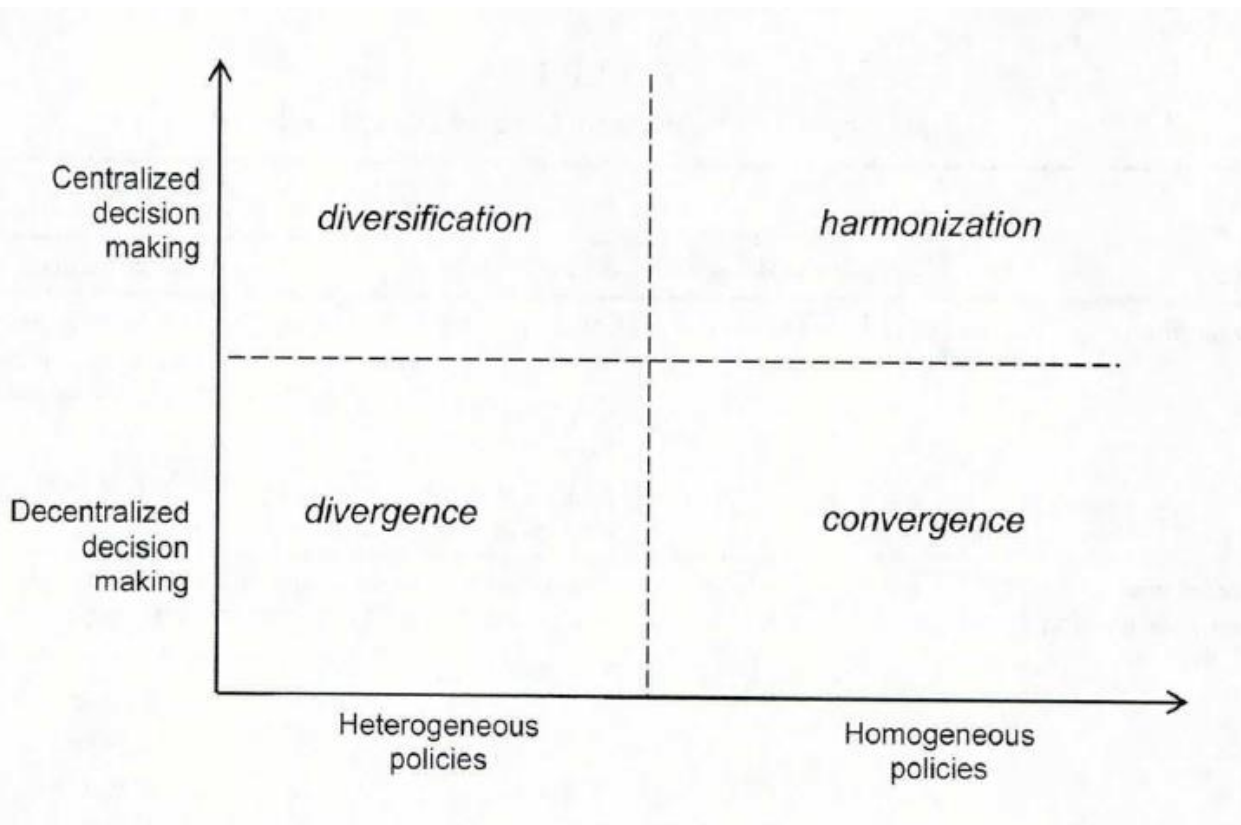
Filip Černoč
cernoch@mail.muni.cz

(European) energy policy

= manner in which given authority (EC + govts) address issues of energy development: production, distribution, consumption. Deals with legislation, incentives to investments, guidelines for energy conservation, taxation, other public policy techniques, international treaties... .

Europeanization

- 1) Centralization of decision making structures
- 2) Degree of homogeneity of policies.



Europeanization

How the constellation of power in energy policy has developed between the MS (national level) and European Commission (supranational level).

Starting position

- MS' aims – to keep the control over the policy
 - Decision-making powers
 - Full control over energy policy
 - Different positions of MS
 - Energy considered as a high-policy (not to be communitarized)
- European Commission's aim - to communitarise the policy
 - Informational and expertise advantages (group of experts in DGs)
 - Emphasis on output legitimacy in the EU (rationality and effectiveness of policies)
 - Predisposition of smaller MS towards the EU
 - Continuous advocacy

Process of communitarization

Tactics: contributing towards the socially constructed narrative of a problem and intersubjective understanding of a supranational solution.

Combination of 3 'flows' -> opening of policy window of opportunity -
> development of policy agenda.

- Problem flow: situation defined as a problem (discourse framing)
- Policy flow: solution offered by Commission (path dependency)
- Politics flow: general development in the area (global prices of energy, consumption, enlargement of the EU etc.).

Source: Kingdon 1995, Maltby 2013.

Periods of development

- 1) The end of the WWII – 70s: first EC/EU institutions
- 2) 70s – first half of 80s: external difficulties
- 3) 86 – 2000: common energy market and environmental issues
- 4) The last decade – completion of the (legally based) EEP – shared competence between EU and MS

Post-war period - ECSC

- 51, resp. 52. Robert Schuman, Jean Monnet.
- Idea of supranational organization with independent management (High Authority).
- De jure common market with coal and steel.
- Independence questioned by introducing Special Council (Council of Ministers), governments interferred frequently.

| OECD – Europe: The overall energy consumption, in % | | | | | |
|--|-------------|-------------|-------------|-------------|------|
| | 1950 | 1955 | 1960 | 1965 | 1973 |
| Solid fuels | 83 | 75 | 61 | 45 | 23 |
| Liquid fuel | 14 | 21 | 30 | 59 | 55 |
| Natural gas | Less than 1 | Less than 1 | 2 | 3 | 10 |
| Hydroelectricity | 2 | 3 | 3 | 3 | 6 |
| Nuclear | 0 | 0 | Less than 1 | Less than 1 | 1 |

Post-war period - EURATOM

„Our children will enjoy in their homes electrical energy too cheap to meter... It is not too much to expect that our children will know of great periodic regional famines in the world only as matters of history, will travel effortlessly over the seas and under them and through the air with a minimum of danger and at great speeds, and will experience a lifespan far longer than ours, as disease yields and man comes to understand what causes him to age“.

LL. Strauss - Chairman of the US Atomic Energy Commission

Post-war period - EURATOM

- 27. 10. 1957
 - To promote research and disseminate the information
 - To establish uniform safety standards to protect the workers and public
 - To facilitate investments developing the nuclear energy in the EU
 - To ensure that all users in the EU receive a regular and equitable supply of ores and nuclear fuels – common supply policy
- Weakened by the disputes between France on one side and Germany and Italy on the other
- Now role of the Euratom is limited mainly to the inspection and preparation of safety regulations.

European Economic Community

- Articles 30 – 37 – removing of quantitative restrictions on import and export, regulation of state monopolies.
- Articles 85-94 – regulates the relations between companies, state aid to business, limitation of monopoly behavior.

Periods of development

The end of the WWII – 70s: first EC/EU institutions

1) ECSC and Euratom hadn't resulted in the common energy policy. The former – social instrument to assist to the run-down of coal mining. The later – limited contribution to developing nuclear power in Europe.

2) Their successes never spilled-over to the other areas.

= The development facilitated and controlled by govts, limited powers and autonomy of supranational bodies. No general energy policy, just in strictly defined areas.

70s and 80s– Eve of the oil crisis

- The dramatic rise of the West dependency on imported oil since 1955
- M. Gaddafi – he led other producers with an effort to limit the power of MNOCs. (expropriation).
- Impact of OPEC – rising the prices, co-ordination of producers

| Nationalization in period of 1970 - 1974 | |
|--|-----------------|
| Saudi Arabia | 0 % - 58,5 % |
| Kuwait | 1,2 % - 55,1 % |
| Algeria | 14,6 % - 76,9 % |
| Qatar | 0 % - 60 % |
| UAE | 0 % - 49,5 % |

70s and 80s - First oil crisis

- 23.8.73 A. Sadat + King Faisal considered the use of oil weapon
- 16.10. the producers raised the price of oil for 70%, then limiting the export
- Following Nixon's decision to support Israel, Libya and S.A. introduced total embargo on export
- 23.12.1973 the price rose again for 128%
- The promise of a negotiated settlement between Israel and Syria was sufficient to convince Arab oil producers to cancel the embargo in March 1974

70s and 80s - First oil crisis

- Results
 - Stagflation and damaged economies
 - Serious impact on the developing countries
 - Physical shortage of fuels
 - EC failed to address this crisis

EU's role in the oil crisis

- 1968 'Community Energy Policy' - call for '*common energy policy which fully integrates the energy ... to counterbalance risks of dependence on imports*'. – opposition from Netherland – Shell and (after 73) from UK.
- 72/425 directive imposing an obligation on MS to maintain minimum stocks of crude oil and/or petroleum products
- 1973 – Discussion about common response to the rising price of oil – failed. No common reaction during crisis. MS prefer to deal with producers separately. Only resolution asking Israel for restraint in the war issued.
- MS blames the US and its foreign policy, the US wants market forces to solve the problem, not willing to come under any pressure from Arab states.

EC's role in the oil crisis

- 1975 attempt to restrict oil and gas use in power generation
 - 1977 – proposal to introduce crisis management measures – refused by UK
 - 1981 development of an Energy strategy for Europe – EC accepted its limited role in this sector
 - 1986 to promote energy conservation and indigenous coal, limit combusting the imported fuels to produce electricity
 - 1987 – proposal for shared financing of common research on possible development of oil fields in EC – refused by UK
- = no legally binding tools, no discernible effect on decision making. EC recommendations frequently ignored.

What failed?

- Situation defined as a problem – oil crisis
- Solution offered by the Commission – EC had no experience in the external energy relations, due to the long period of low prices and amply supplies
- General development in the area – external dimension as a high policy, bilateral relations of MS with producers, domestic sources of oil and gas, UK

Periods of development

- 1) The end of the WWII – 70s: first EC/EU institutions
- 2) 70s – first half of 80s: external difficulties
= EC's effort thwarted by MS. Bilateral policy at the expense of common position.

Period between 1985 - 2000

- New incentives for EEP on the EC level
 - Weak competitiveness of European industry – first proposals to create the internal energy market
 - Environmental concerns – on both local and global level
 - Disintegration of Soviet block – proposals to manage relations between producers and consumers (EU MS) of energy.

Period between 1985-2000

- Energy policy grew gradually.
- EEC
 - Articles 30 – 37 – removing of kvantitative restrictions on import and export, regulation of state monopolies
 - Articles 85-94 – regulates the relations between companies, state aid to business, limitation of monopoly behavior
- Maastricht treaty
 - EU´s competence on the environment
 - Cross-border energy infrastructure (T-E networks)
- Amsterdam Treaty
 - No significant changes

Periods of development

1) The end of the WWII – 70s: first EC/EU institutions

2) 70s – first half of 80s: external difficulties

3) 84 – 2000: new activities in all three dimensions

= Authority of EC/EU institutions strengthened. Legal foundations of EEP established.

Process of creation of EEP

- 1995: White Paper: An Energy Policy for the European Union
- 2000: Green Paper - Towards a European strategy for the Security of Energy Supply: „...the Union suffers from having no competence and no community cohesion in energy matters“
- 2006: Green Paper – A European Strategy for Sustainable, Competitive and Secure Energy.
 - An internal energy market that guarantees security of supply through solidarity between MS
 - Raising security and competitiveness of energy supply through more sustainable, efficient and diverse energy mix
 - An integrated approach to tackling climate change
 - Encouraging innovation
 - An external energy policy

Fourth period – a new millennium

- Energy and climate package
 - A 20% reduction in EU greenhouse gas emissions from 1990 levels
 - Raising the share of EU energy consumption produced from renewable resources to 20%
 - A 20% improvement in the EU's energy efficiency
 - + EU ETS (2009/29/ES) + CCS (2009/31/ES)
- Third liberalization package
 - Unbundling
 - Promotion of an internal energy market and the removal of restrictions to trade between MS
 - Agency for Cooperation of Energy Regulators (ACER) + European Networks for Transmission System Operators
 - The protection of the consumers have to be strengthened

Treaty of Lisbon (2007)

- Head XXI: Energy:
 - (a) ensure the functioning of the energy market;
 - (b) ensure security of energy supply in the Union; and
 - (c) promote energy efficiency and energy saving and the development of new and renewable forms of energy; and
 - (d) promote the interconnection of energy networks.

= ordinary legislative procedure (co-decision) – shared competences

EEP

- Apart from the explicit energy competences, Union actions in this area are guided by:
 - Art 24 and 114 TFEU – internal market
 - Art 191-193 TFEU – environmental protection
 - Art 113 TFEU – taxation
 - Art 107-108 TFEU – state aid
 - Art 206 TFEU – EU trade policy
 - Art 170 – 172 TFEU – TEN-E
 - And others

Process of communitarization

- Situation defined as a problem (RF – Ukr crisis, negotiation about Kyoto protocol)
- Solution offered by Commission (common integrated policy)
- General development in the area (volatile prices of energy commodities, new member states, decreasing domestic production, new world consumers of energy...)

Periods of development

- 4) Last decade: completion of the (legally based) EEP
 - = continuing process of adjusting and revising of common energy policy
 - = domination of supranational principle in the area of internal market and environmental aspects of energy
 - = intergovernmental approach preserved in the external dimension

Europeanization

| Area | Centralization of decision making | Homogeneity of policies – aims | Homogeneity of policies – instruments |
|-----------------------------|---|--|---|
| Climate protection | Partly centralized | 2020, 2030: EU overall aim for ETS, diversified aims for non-ETS-sectors | ETS vs. heterogeneous for non-ETS-sectors |
| Internal market | Partly centralized | Aim of IEM | Partly homogeneous (binding rules) |
| Security of supplies | Mostly decentralized | No specific EU-aim | Heterogeneous. Non binding guidelines on production and safety measures |
| Technology | Nuclear power (decentralized) RES (mostly decentralized) | No EU aim, heterogeneous aims for the MSs 2020 and 2030 aims | Heterogeneous Partly homogeneous |
| Energy efficiency | Decentralized | 2020, 2030 aims | Heterogeneous |

Europeanization

- 1) Partly centralized decision making on EU level
- 2) Mostly decentralized approaches of MSs, which are implementing (rather) heterogeneous energy policies.