



Economic implications on European competitiveness of policies aimed at achieving a sustainable supply of electricity

Conclusions of the 2004 Annual Forum on Energy and Sustainability

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What is competitiveness?

- A competitive country is one that can maintain high rates of growth and employment in the medium term
- Depends on the quality of the country economic and political institutions and the extent to which they are supportive of employment, productivity growth, innovation and the ability to adjust to changing circumstances

Competitiveness in Europe: the Lisbon Strategy

To make the EU the most competitive and dynamic knowledge-based economy in the world by 2010, capable of:

- sustainable economic growth (3%)*
- with more and better jobs (70% empl. rate)*
- and greater social cohesion*

The Lisbon Strategy

- Creating an information society for all
- Developing an European area for innovation, research and development
- Liberalization
- Building network industries
- Creating efficient and integrated financial services
- Improving the enterprise environment
- Increasing social inclusion
- Enhancing sustainable development

Key sustainability challenges

- Security of supply and fuel diversification
- Escalation of carbon emissions
- High uncertainty about nuclear
- Continued growth of road and air transport
- International cooperation
- Gap between public policy aspirations and current market trends
- To provide electricity for poverty eradication

Sustainability may affect competitiveness

- Economic growth
 - Foreign investment
 - Export markets
 - Creation of employment
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- There is a fear that companies may be forced to relocate their activities
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- In fact, environmental policy at the EU level has been justified by considerations of economic competitiveness: removal of green trade barriers

The worries of European firms

- Higher-than-average energy costs
- Neither price reductions nor convergence of prices in the EU
- No real energy markets
- Very stringent legislation
- Lack of harmonisation of energy and environmental policies

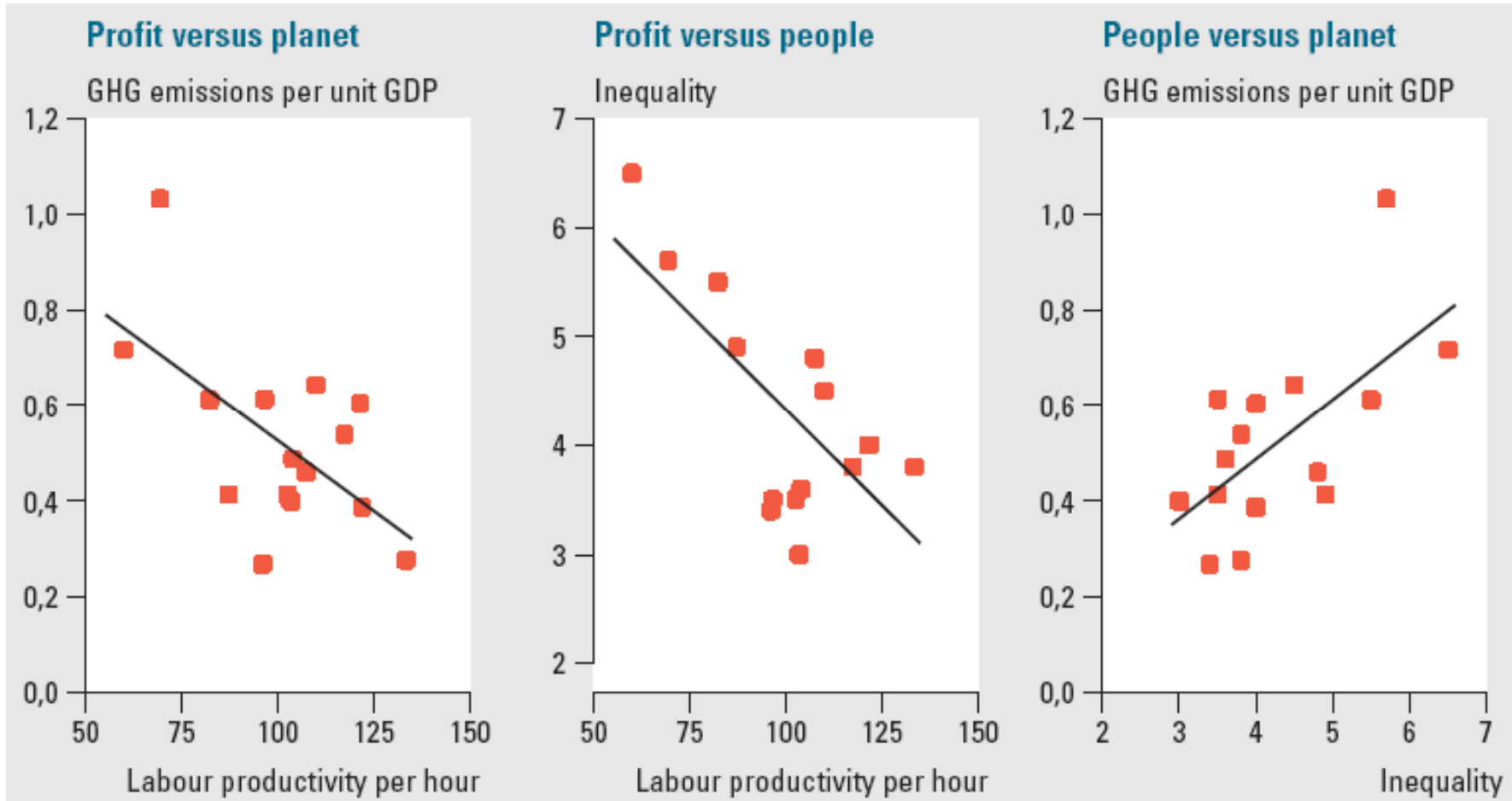
The real impact on competitiveness

- The precise relationship between environmental policy and economic performance remains a matter of debate
- In fact, it is very difficult to assess
- But it may have positive and negative effects
 - May jeopardize European competitiveness in the world
 - But green EU trade barriers can isolate firms from foreign competition

The positive side

- The impact on competitiveness may have been overstated
 - for most industries, expenditures required to meet environmental regulation is less than 1% of costs
 - environmentally-concerned countries do not incur in economic losses from decreased trade or industrial relocation
 - it may be smaller than that of exchange rates
- Strict discipline in energy and environment may provide for competitive advantages in the long term
 - Yet to be proved

Combining competitiveness and sustainability



And the negative side

- Negative economic impact on certain sectors is hard to deny:
 - iron and steel, refineries, cement, chemicals
- Even in other sectors, leakages may cause larger problems
 - but may be corrected with border taxes
 - which are justified for global externalities such as global warming

Key issues concerning competitiveness

- Improvement of the functioning of energy markets
 - market integration
 - better regulation of natural monopolies and market power
 - integration of environmental considerations through market mechanisms

Conclusions

- We need stronger actions for energy sustainability...
- ...While maintaining at the same time industry competitiveness
- Liberalisation should be considered a powerful instrument rather than a hindrance
 - by providing more opportunities and therefore
 - by helping achieve objectives at a lower cost
- Governments should act as facilitators
 - clear goals
 - appropriate institutional frameworks

Lines of action

- Make clear strategic choices
- Harmonise legislation across Europe
- Improve energy efficiency (especially in buildings and transport)
- Increase market integration and competition, use market mechanisms as much as possible
- Develop the appropriate generation technologies
- Increase energy diversification
- Educate and communicate better, open the public debate
- Think over aid programmes for developing countries
- Incorporate all countries to the solution