

## Open Europe Parliamentary Debate briefing # 2

### Energy

#### Executive summary

- The revised EU Constitution will hand over new powers over energy policy to the EU. There would be a specific legal base for EU legislation on energy, and first time energy will be subject to majority voting.
- The UK Government originally opposed these new energy powers and tried to have them deleted. The Government said the new powers were “unnecessary” and that it had “*detailed concerns*” about them. But it later gave way.
- The Government is now using a bogus argument to justify the handover of powers. It claims that the powers are needed to break up energy monopolies on the continent. But legislation to do this has already been proposed, and is already subject to majority voting under the internal market article – Article 95.
- Indeed, the difference the new energy powers will make is to let the EU pass legislation on energy which is nothing to do with the operation of the internal market.
- For example, in 2002 the Commission proposed a huge increase in statutory oil reserves. The UK vetoed this at the time, but under the Lisbon treaty the UK could not block it. If the Commission were to reintroduce the proposal in future it could cost the UK up to £6 billion to implement, with ongoing costs of 600 million per year.
- Existing EU energy policies are already set to cost the average UK family of four £500 to £1000 a year. Additional measures which would pass under the Lisbon Treaty would raise these costs to £600 to £1200 a year.
- These higher energy prices will hit low income groups hardest. The Government has promised to eliminate fuel poverty by 2010 (defined as households where more than 10% of income is spent on fuel). There are currently over four million households in the UK suffering fuel poverty.
- Current EU policies will lead to 200,000 to 700,000 extra households in fuel poverty. But under the Lisbon Treaty, this would increase to between 300,000 to 800,000 extra households pushed into fuel poverty as a result of EU energy policies, bringing the total to 5 million.

## In detail

### (1) New powers over energy introduced by the Lisbon Treaty

If the Treaty comes into force the EU will acquire new energy powers. These relate primarily to extending EU control over national energy resources, as opposed to strengthening the Union's role in enforcing the internal market and extending competition, as the British Government claims.

Article 194 [176a] introduces qualified majority voting over measures proposed to ensure security of energy supply. There is also new text in this article (which was not in the Constitution) affirming the objective of "a spirit of solidarity between Member States" – inserted at the request of Poland. Article 100 of the existing treaties<sup>1</sup> is also enhanced by the Lisbon Treaty to allow significant energy measures. The underlined sections of the following show what has been added to the existing text of Article 100:

*"Without prejudice to any other procedures provided for in the Treaties, the Council, on a proposal from the Commission, may decide, in a spirit of solidarity between Member States, upon the measures appropriate to the economic situation, in particular if severe difficulties arise in the supply of certain products, notably in the area of energy."*

Under the new Treaty, measures currently in the legislative pipeline – which are being blocked by the current system of national vetoes – would stand a much better chance of getting through and becoming law. The EU Oil Stocks Directive was blocked in 2002 under the conditions of unanimous voting. Under the new Treaty, the surrender of national vetoes changes this situation. The Oil Stocks Directive would effectively allow the EU to control member states' emergency oil reserves and would increase the size of those statutory reserves by a third.

The UK has blocked this proposal in the past - but it would be almost certain to pass under the Lisbon Treaty. Not only would the UK not have a veto, but the UK is the EU's only significant oil exporter, and the accession of new EU Member States, with a high level of dependence on Russian oil, creates a voting bloc within the EU Council much more strongly in favour of the proposal.

As well as the UK losing control of its reserves policy to the Commission, the UK taxpayer would be landed with a bill of nearly £6 billion to implement the plans and an ongoing cost of nearly £600 million a year.<sup>2</sup>

---

<sup>1</sup> Becoming Article 122 [100] in the new Treaty

<sup>2</sup> assuming oil prices of \$80 - higher oil prices would mean even higher costs

## **(2) The UK Government originally opposed the new energy powers – and is now using a false argument to justify them**

The UK Government originally opposed giving new energy powers to the EU when the Constitution was being drawn up. Indeed, at the European Convention drawing up the original EU Constitution, the Government tried to delete the entire article on energy.

Peter Hain argued at the time:

*“This provision is unnecessary as all aspects of energy policy are effectively covered elsewhere in the Treaty e.g. single market, environment. In addition, we have detailed concerns on the text, which we consider may have the unintended effect of changing the boundaries of EU competence and the types of measure which will be subject to unanimity.”<sup>3</sup>*

Having failed to stop the changes, the Government is now attempting to claim that the new energy powers are needed to enforce liberalisation – but as the above quote shows, the Government has always known that the new provisions of the treaty are “unnecessary” to achieve this goal. Nonetheless, Jim Murphy, the Europe Minister, recently argued:

*“Energy policy will move to qualified majority voting (QMV) in the Reform Treaty, making it easier to liberalise energy markets and improve energy security. More open markets will promote energy efficiency and allow consumers greater choice. Energy is an example of where the Reform Treaty moves to QMV can unlock decision-making in Britain's interests”.*

This is false. The EU already has the power to pass liberalising measures by majority vote under internal market rules. The Commission has proposed legislation to break up large continental energy monopolies like EDF and Eon, a law tabled on the basis of the internal market article (Article 95), and is covered by majority voting. This is currently stalled due to opposition from large member states such as Germany and France. The UK's problem is not that one country is exercising a veto, but that powerful member states are fighting the proposals.

The UK's failed attempt to block the new energy article shows that the Government has long been concerned by the new energy powers in the Treaty. However, the Government has chosen to conceal its failings through the false argument that the changes are necessary to achieve energy liberalisation.

---

<sup>3</sup> <http://european-convention.eu.int/Docs/Treaty/pdf/845/Art%20III%20152%20Hain%20EN.pdf>

### (3) How would the Treaty energy powers affect people's daily lives?

The EU is already pursuing a number of policies which are going to add substantially to people's energy bills – huge targets for biofuels, renewables, and the EU Emissions Trading Scheme.

There is of course no way to know what new measures might be proposed in future under the energy heading and the new majority voting arrangements. However, even just taking the one obvious example in the pipeline – the Oil Stocks Directive, the move to majority voting is likely to mean an extra £120 - £130 per family of four per year.

This would raise the total cost of EU energy policies to up to nearly £1200 per family of four per year.

EU energy policy costs per annum by 2020	Upper Estimate	Lower Estimate
Subsidy required to hit 2020 EU renewables and biofuels targets (DTI)	£11,000m	£5,000m
Food price increases caused by biofuels (OE)	£975m	£750m
Emissions Trading Scheme (Ofgem/ OE)	£3,420m	£1,800m
Potential costs of oil stocks directive over five year implementation period (UK Gvt. <sup>4</sup> / Open Europe)	£1,320m	£1,200m
Per family of four per year (current policies)	£1026	£503
<b>Per family of four per year (Lisbon Treaty)</b>	<b>£1159</b>	<b>£623</b>

Of course, fighting climate change will cost money. But previous research from Europe Economics has shown that the current policies being promoted by the EU are not the most cost effective way of fighting climate change – meaning ordinary people are not getting good value for money out of EU environmental initiatives, such as binding targets for renewables, biofuels and the Emissions Trading Scheme.<sup>5</sup>

If environmental and energy policies do not deliver good value for money, the end result is not only an environmental failure (sub-optimal carbon abatement performance stemming from poor allocation of economic resources), but also a very real human impact that hits the poorest in society hardest.

---

<sup>4</sup> Regulatory Impact Assessment supplied to the European Scrutiny Committee. See: <http://www.publications.parliament.uk/pa/cm200203/cmselect/cmeuleg/63-i/6301.htm>

<sup>5</sup> See Open Europe/ Europe Economics research on costs of carbon mitigation: <http://www.openeurope.org.uk/research/whatworks.pdf> & <http://www.openeurope.org.uk/research/eereport.pdf>

EU derived energy price rises are already a contributing factor to increasing fuel poverty and disconnections in the UK. Ofgem recently noted that disconnection rates for UK homes, having seen a significant decline between 1998 and 2004, are now quickly rising again. Since 2004, the number of disconnections due to debt has roughly trebled, rising from around 3,000 to 9,000. Around one in ten customers owes more than £600 in electricity bills, up by 64 per cent compared to three years ago. Around one in 14 owes more than £600 on gas, which is up by 19 per cent. The increase in this level of debt coincides with rocketing bills, which have gone up 61% for electricity and 82% for gas over the last four years.<sup>6</sup>

Of recently announced energy price rises, EU policy has played a conspicuous part. Ofgem has estimated that each UK consumer currently pays £31 a year to finance the ETS, with power generators expected to pocket £9bn in windfall profits over the five years of the scheme's current phase. Some member states such as Spain are even planning a windfall tax to recoup these profits.

If trends remain constant, current EU energy policies would equate to 2700 – 6500 additional disconnections. The potential costs associated with the Oil Stocks Directive would add another 800 - 1000 to this number.

As Adam Scorer, Head of Campaigns at Energywatch, points out, the issue of disconnection “is not just about numbers on a balance sheet. We know of cases where there have been deaths...People are forced to sleep in their cars or on the floor of friends' homes in order to stay warm.”<sup>7</sup>

EU derived energy costs would also have an impact on fuel poverty. A household is defined as being in fuel poverty when more than 10% of income is spent on energy. There are currently 4 million households in fuel poverty, in itself an increase of 2 million since 2003.

The UK Government has pledged to eradicate fuel poverty by 2010. But Energywatch estimates that for every 1% rise in energy prices, an extra 40,000 households are pushed into fuel poverty. We estimate that EU energy policies would feed through to a 6 – 20 % rise in costs faced by consumers, equivalent to 200,000 to 700,000 households being pushed into fuel poverty.

Taking together existing measures and the oil stocks measure that would pass under the Lisbon Treaty, this would mean that by 2020, somewhere between 300,000 and 800,000 households would be pushed into fuel poverty as a result of EU energy policies, bringing the total to 5 million.

---

<sup>6</sup><http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Debt%20and%20disconnection%20best%20practice%20review.pdf>;

<sup>7</sup>[http://www.energywatch.org.uk/media/news/show\\_release.asp?article\\_id=1081](http://www.energywatch.org.uk/media/news/show_release.asp?article_id=1081)

<sup>7</sup> Quoted in *Mail* (25.01.08)