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IENE Comment

Defence, Emissions and the Money Tree



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*By Irina Slav**

The European Commission has been busy lately. There's been the Action Plan for Affordable Energy. There's been the Clean Industrial Act. Now, there's ReArm Europe. The one feature common to all of these action plans – because that's what they are supposed to be – is money. All three will require massive amounts of it. And Europe doesn't have a money tree garden.

When the Commission released the Action Plan for Affordable Energy, it was hardly a surprise to see that the EU's executive arm continues to place the blame for exorbitant energy costs on hydrocarbons. It was anything but surprising that the suggestions for bringing those costs down were focused on building even more weather-dependent sources of electricity despite the growing body of evidence that they are a key reason for higher electricity costs and lower reliability of supply.

Even less surprising was the idea of boosting subsidies for these sources of electricity, again despite of the evidence pointing towards that money essentially turning into a gravy train for wind and solar operators in the form of guaranteed prices for their electricity while the cost of those guaranteed prices gets passed on to the end consumer. So, essentially, the EU proposed to bring down electricity prices by making electricity even more expensive—and more unreliable.

Another concerning point in the Action Plan for Affordable Energy was the focus on interconnectors. The Commission has argued for a while now that the only way to make electricity supply across the EU more reliable is to make EU members more reliant on each other through cross-border electricity supply. On the face of it, the idea is sound. More interconnectors would help reduce so-called curtailment when wind and solar in optimal parts of the continent generate more than the immediate vicinity can consume. But what happens when the sun sets and the wind dies down? The electricity supply contracts are still there and their terms must be complied with regardless of the weather. Enter gas, coal, and nuclear, and higher electricity prices for the domestic market of the producer while it complies with its export contract terms. Just ask Norway.

While the focus of the Action Plan for Affordable Energy was on wind, solar, and interconnectors, the focus of the Clean Industrial Plan was on industry—and now to reduce emissions while boosting competitiveness. Again, no attention is being paid to the evidence suggesting there is no way to both reduce emissions through available technology and

regulations, and boost competitiveness. The ideas put forth in the Clean Industrial Deal boil down to even more subsidies for industrial enterprises, more loans, and more financial guarantees, so industrials can borrow without worrying so much whether they'd be able to repay the money. Another notable idea in the Clean Industrial Deal is the creation of demand for low-emission goods—through mandates.

These mandates, to apply to public and private procurement contracts, would, according to the Commission, serve to jumpstart demand for so-called clean products, meaning products made with wind and/or solar electricity as opposed to coal and gas, for example. As has been established, these products tend to be often considerably more expensive than their hydrocarbon-produced equivalents, meaning even higher costs for the end consumer. It's a bit like the EU can't help itself but feed inflation.

Finally, ReArm Europe aims to jumpstart a defence spending spree in the EU in light of the fact that the United States is rearranging its foreign policy priorities. The plan envisages close to a trillion euro in spending on things like military equipment, ammunition, and drones, to mention but a few. What there is no mention of in the plan is how this lavish spending plan fits in with the emission reduction priority of, it seems, every single EU policy, and how the money will be repaid, because that money will come from loans.

It appears that the authors of the plan see absolutely nothing wrong with saddling already deeply indebted countries with additional debt for the sake of a defence prop up in the face of what increasingly looks like fabricated danger—and badly fabricated, at that. The idea of having sensible defence is always a smart one but doing it in a rush is not that smart, especially if you are also strangling your industries with emission control regulations, emission-trading markets, and emission reporting mandates, although those last ones were at least relaxed.

The European Union's executive leadership is acting very much like a frantic chicken that has been spooked by the neighbour's dog. Frantic is not a state to be with when you are sealing the fate of several hundred million people and their children and grandchildren by essentially sentencing them to repay over a trillion euro in transition and war loans – with nothing to show for any of it. But hey, emissions will be coming down, at least until the missiles start flying and the bombs going off.

**** Energy Journalist and Contributing Editor, IENE Newsletters***

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3, Alex. Soutsou Str. 106 71 Athens, Greece, T: +30-210 3628457, 3640278, F: +30 210 3646144, marketing@iene.gr, www.iene.eu

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