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IENE Comment

Europe’s Dilemma: Competitiveness or Emission Cuts

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*By Irina Slav**

The European Union cares a lot about the competitiveness of European companies. It cares so much, in fact, that it has devised a whole framework of measures aimed to help EU industries catch up with rivals from Asia and North America – and it has put decarbonisation at the heart of that framework.

The Clean Industrial Deal was promoted as a political means of killing two birds with one stone, namely reversing the process of deindustrialisation that has plagued the business world in Europe for years now, and reducing the consumption of hydrocarbon-derived energy. Now, alarm bells are ringing, because these two goals are mutually exclusive and have been from the very start.

German industrial producers were first. They have been grappling with high energy costs and growing pressure to decarbonise for years, and they have concluded it is not possible. Just recently, ThyssenKrupp said it cannot afford to invest in alternative energy supply because this investment would essentially keep its energy costs high, which is the opposite of what the company needed. So ThyssenKrupp is cutting jobs. So are hundreds of other companies in Germany and elsewhere in the EU.

Also recently, Siemens and TotalEnergies wrote a letter to the European Commission on behalf of 46 companies, calling for the abolition of the Corporate Sustainability Due Diligence Directive. The CSDDD mandates emission reductions and human rights protection for all companies doing business in the EU and is considered one of the main support beams of the EU’s decarbonisation structure. As such, it is hurting competitiveness.

“Europe's global competitiveness requires a decisive shift away from excessive regulation — across all sectors,” Siemens said of the directive, which is about to be tweaked to only apply to companies with a workforce of over 5,000 people and annual turnover of at least 1.5 billion euro. For companies, however, this is not enough – and these are companies that have been paying for their emissions and trying to reduce them, at no discernible benefit to anyone involved in the process.

While the European Parliament discusses the tweaks to the CSDDD, the Commission is drafting more regulation that would exclude gas-fired power plants from sustainable investments by setting the permissible emissions threshold so low that no gas-fired power plant can meet it. The stated goal: steer more private money into alternative generation capacity, that very same capacity, whose growth in Europe appears to be strangely followed by constantly rising electricity costs. Yet the Commission and many in the European Parliament insist alternative energy is cheaper and will bring costs down. The question that the payers of these costs are asking is "When?"

It won't be any time soon, that is certain and many transition advocates do not deny it. Yet European businesses need their energy costs brought down yesterday if that competitiveness that the Commission worries about so much is to be revived. In tackling the problem, however, it keeps choosing the wrong course of action.

Industrial producers worry that high electricity costs are harming their competitiveness by making their products too expensive. The Commission's solution? Make it mandatory for consumers of those products to buy the more expensive option. In theory, this could work. In practice, it won't work for long because it would just fuel cost inflation along the whole supply chain all the way to the end consumer who is already struggling to pay their bills. This is why the eurozone's economy grew by 0.1% in the second quarter of the year, down from 0.6% for the second quarter and the wider EU did not do much better.

Things are about to get worse, too, as peak energy demand season kicks in and Europe once again has trouble securing all the natural gas it would need, seeing as winter may be peak season for electricity demand but trough season for both wind and solar.

Germany's gas utility major Uniper warned this month that the EU's biggest economy faces losses worth 40 billion euro if winter turns out cold, unless it can maintain its gas reserve at 90% full – a clear impossibility during peak demand season. One could safely assume that the winter will indeed be cold as winters tend to be. Even if it is as mild as winter 2022/23, gas reserve levels could not remain at 90% for very long. The worst part? Even at 90% full reserves, Germany would suffer economic damages of some 14 billion euro from the winter cold – but at least it would avoid recession, per Uniper.

The EU has worked consistently to make energy costs higher for European businesses and households. This has naturally led to lower competitiveness for goods produced in

Europe. But emissions are lower, too, so that's at least one of those two birds killed with the decarbonisation regulation stone. The question is which bird is more important: competitiveness or emissions.

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