

European competition policy and the energy transition

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Participants:

Margrethe Vestager, European Commissioner for Competition

Justus Haucap, Director, Düsseldorf Institute for Competition Economics

Carlos Sallé Alonso, Director of Energy Policy, Iberdrola

Chair: **Georg Zachmann**, Research Fellow, Bruegel

Notes:

Margrethe Vestager: EU competition policies favour the energy transition and have proven their efficiency in other green markets, like recycling. After the failure of Copenhagen in 2009, one of the first challenges for the EU is its energy transition: by reducing consumption, decarbonising production and securing the supply. The question now is how to promote renewables and other decarbonised technologies and how competition policies can help. With renewables becoming cheaper (prices have decreased by 1/3 to 2/3 in the past few years) and prices expected to fall even more, there are market opportunities. In the past, there have been numerous subsidies for capacity-building of renewables. Now we want to incentivise renewables in the market but avoid creating too much distortion. The focus will be now to tear down barriers for innovation and fragmentation, to create a secure environment, and to allow better grid connection and cross-border trades in electricity.

Carlos Sallé Alonso: Competition policies are a good way to achieve efficiency. Past policy decisions have largely shown us what not to do. Among others, there are five issues undermining the energy transition in Europe:

- Asymmetries in the transparency of different energy sectors and countries leads administrations to make incorrect diagnoses. There is a need for harmonisation to enable comparison across countries and sectors.
- There are concerns about security of supply, as an increase in renewable sources will increase volatility. Existence of administrative interventions makes the Capacity Remuneration Mechanism better adapted to the European situation than energy-only markets.
- Network interconnections are largely insufficient, which prevents the emergence of a level playing field among countries.
- Different and uncoordinated taxes & levies across the EU affect competitiveness outside and inside the EU. In some cases more than 50% of electricity bills are costs not related with supply activities.
- Climate policies are mainly paid for by electricity consumers. First best is to allocate these costs in national budgets and second best would be to share the effort with other energy consumers.

Justus Haucap: The potential benefits of competition policies are important, but an integrated European energy market is also vital. The current fragmentation can be explained by the varying policy choices between countries and by the very asymmetric market. In fact, the demand for energy is very inelastic, and the oversupply reinforces this non-reaction to prices. Peak demand was never EU-wide and some studies have shown that half of the time there is a peak demand in one country it is not the case in the neighbouring countries.

Georg Zachmann: There are differences between the short-term and the long-term market. DG ENERGY and DG COMP have focused strongly on short-term issues in the past and now it would be necessary to focus on investment. Each country having different strategies and policies, which DG (Energy or Competition) should carry out the reform?

Margrethe Vestager: Those issues should be considered by both directorates. Capacity payments are against EU principles because they are nationally decided. A strong price signal should arise for demand to adapt and for better decision-making. The cheapest type of electricity is the one not produced at all, which is also the least polluting; enabling that type of mechanism to exist would help for energy security.

Guntram Wolff: US and China have done a tremendous amount of work ahead of Paris, so the EU might lose some of its leadership. If there is no agreement in Paris, the EU will face a loss of competitiveness due to its unilateral strategy for climate change. The question would be what to come next? Exemption? Carbon border tax?

Event notes by Augustin Lagarde, Research Intern