WINTER HAS COME:
MARKET DOGMAS AND DISCONTENT

Technical Briefing

POWER TO THE PEOPLE

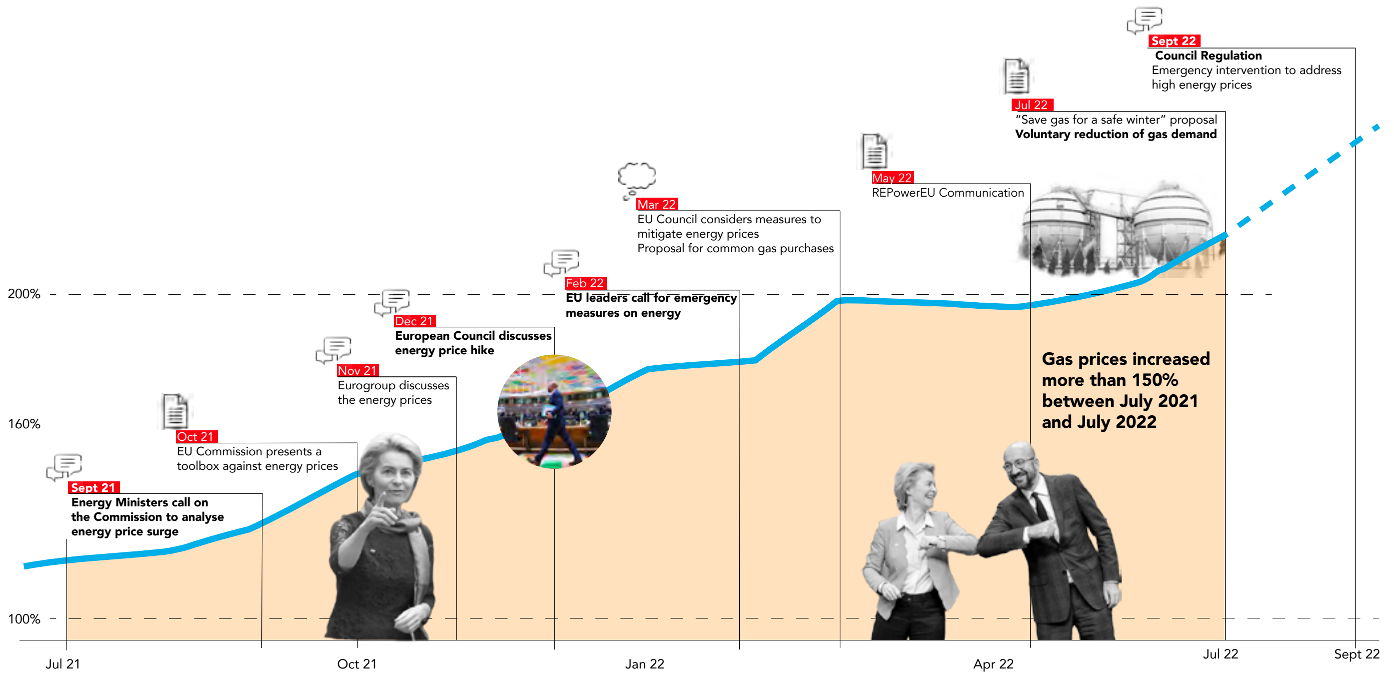
BACKGROUND & CONTEXT

As families and working class people across Europe are brought to their knees by energy prices, European leaders continue to dither, failing to take action against an unhinged energy market. Caught up in an endless ping-pong between European institutions and member states, the European Union is leaving families exposed to unbearable energy and living costs.

For over 12 months, The Left in the European Parliament has been raising the alarm on rising energy and gas prices, warning the European Commission that if left unchecked the energy market would wreak havoc upon the livelihoods of families and small businesses across the continent.

Over the course of the past year, the Commission has put forward a range of communications, plans and toolboxes. Nonetheless, despite the glossy public relations efforts (e.g. REPowerEU and "save gas for a safe winter"), **the Commission's efforts fall short on tackling the root causes of this energy crisis**, providing timid recommendations to member states.

National governments have been scrambling to find measures at retail level, including price caps, regulated tariffs, support schemes for companies and energy bill credits. Some have also introduced windfall taxes on energy company profits. To prevent disruptions in the energy sector, several countries have recently started to provide substantial emergency liquidity to energy companies which face rising collateral costs. Some countries have also taken stakes in energy companies, while others had to engage in last minute nationalisations, ultimately feeding a rigged market with public money.



Enough talking: It's time to change the market!

While the European Council is prepared to "call as many Extraordinary Energy Councils as necessary", a comprehensive EU strategy to rein in soaring prices seems far from sight. In the meantime, retail energy prices in Europe have increased by close to 40% over the year from August 2021 to August 2022. According to Goldman Sachs, a typical family in the EU could face energy bills of €500 per month by early next year, an increase of 200% from 2021. The steady rise in energy prices has led to an increase of more than 10% to the cost of the average consumption basket, with inflation across the eurozone reaching an unprecedented record of 9% (in August 2022, headline inflation ranged from 6.5% in France to 25.2% in Estonia).

As can be expected, the sharp increases in cost of living and energy prices have not been matched by wages. These trends are deepening existing inequalities, negatively impacting the poorest and most vulnerable segments of European societies. It is no surprise therefore that, feeling the bite of this crisis, people are taking to the streets. Protests have erupted in Belgium, Germany, Italy, and Czech Republic to name a few, and social unrest will continue as people struggle to make ends meet and get through the winter.

Despite the hardship faced by the general population in Europe, companies have increased their profit shares and pay-outs to shareholders. Big corporations, especially in the energy sector, are raising prices for consumers while accumulating massive profits. Shell smashed record profits in the second quarter of the year, raking in more than €11 billion, Exxon came close to €18 billion, Iberdrola made more than €2 billion in the first half of 2022, and Naturgy increased its profits by 28%.

There will be no way out of this energy crisis if these disparities are not structurally and radically tackled.

HOW TO GET OUT OF THIS CRISIS?

Over the past year the range of proposals to tackle energy prices put forward by member states and EU institutions has been spiralling out of control, creating a theatre of chaos where all the actors are running in different directions. In light of this, The Left in the European Parliament proposes **three key principles** against which all proposals should be assessed:

1. **Democratisation of the energy sector, breaking the oligopoly of Big Energy.** Heightened by the war in Ukraine and the climate crisis, today's energy crisis is the result of decades of privatisation and liberalisation. Measures should therefore aim to break the neoliberal straitjacket of the EU energy model, establishing public control of the sector and price formation, while ensuring transparency and accountability of energy and financial companies operating in the different energy markets.
2. **Protection of at risk families and workers.** Energy poverty was a worrying reality before this crisis and after over 12 months of rising energy costs coupled with rising inflation, households across Europe are being plunged further into poverty. Any measure tackling the energy sector needs first and foremost to protect vulnerable groups, ensuring adequate access to affordable and sustainable energy for lighting and heating.
3. **Accelerate the decarbonisation of the energy sector.** The stubborn dependency on fossil fuels and market driven reforms has brought Europe to the worst energy crisis of recent times. The extreme weather events of the past summer compound the energy crisis, leaving vulnerable groups even more exposed. Decarbonising our economy, society and energy sector is no longer an option or a choice, it is an urgent and compelling need. The only way out of this crisis will be through measures that can radically drive forward the deployment and distribution of renewables, accelerating a just, fair and sustainable energy transition for all.

WHAT'S ON THE TABLE?

The latest Council Regulation "Emergency intervention to address high energy prices" agreed in the last Extraordinary Energy Council of the 30th September 2022, contains three main provisions:

1. Demand reduction, with an overall reduction target of 10% of gross electricity consumption and a mandatory reduction target of 5% of the electricity consumption in peak hours.
2. Establishment of a revenue cap at €180 per MWh for inframarginal technologies, with the possibility of companies to retain 10% of the surplus profits.
3. Solidarity contribution of 33% applied to companies' surplus profit generated from activities in crude petroleum, natural gas, coal and refinery sector.

While the spirit of some of these measures goes in the right direction, they nonetheless fall short on all three principles discussed in the previous section. **While consumption needs to be reduced, this needs to take into account the vast inequalities characterising energy consumption.** Globally, the energy footprint of the richest 10% of the population is 20 times higher than that of the poorest 10%. By ignoring this inequality, the demand reduction priorities set out by the Council Regulation risks worsening conditions for households living in energy poverty or in inefficient housing, leaving them to pay the brunt of the reduction targets.

The proposed revenue cap on inframarginal energy sources embodies the **determination of European institutions to leave untouched the marginalist market structure, leaving intact the merit order principle responsible for the soaring energy prices.** Moreover, the level of the cap (€180/MWh) remains excessively high, allowing big energy companies to make extraordinary profits. These are further protected by the Regulation's provision allowing companies to retain 10% of the surplus profits. In principle this cap is supposed to provide member states with the liquidity to shield households and small businesses. However, as highlighted by Bruegel (2022) capturing inframarginal rents is far from a straightforward operation. The main challenge is dealing with forward contracts, which underlie much of the transactions in European electricity markets. Moreover the opening within the Regulation for member states to use their own budgetary resources to protect those who need it the most, seems to indicate that not all countries will have the necessary resources to soften the blow of high energy prices for households and small businesses, resulting in uncoordinated and contradictory responses.

The additional, **temporary "solidarity contribution" of 33% of profits** made from activities in the crude petroleum, natural gas, coal and refinery sectors, while being a step in the right direction, **is a drop in the ocean** given the current state of affairs. The Commission and Council make a lot of effort to avoid the word "tax", nonetheless the issue is that **it is way too low, limited to very specific sectors and temporary in nature.**

Despite von der Leyen's grandiose announcements during her State of the Union speech of "extraordinary measures for extraordinary times", the interventions being put forward are not ambitious and do not tackle the structural causes underlying this energy crisis. This in turn opens the risk that the Commission and Council will engage in co-opting radical new language that calls for change and using it to mask their market based solutions.

Unfortunately, the European Parliament is not doing any better with a bland, timid Resolution on the EU response on the increase of energy prices voted through on Wednesday 5th October 2022. **The Resolution fails to grasp the dramatic urgency of this energy crisis**, defending EU institutions' unshakeable faith in the market of EU institutions and merely asking the Commission to "analyse possible measures" without concrete proposals. Not only does the proposed text put forward a vision of energy poverty as a personal burden - as opposed to a political and institutional failure - but it continues to defend companies' profits over the livelihoods of families and workers across Europe. A case in point here is the refusal to include basic conditions to ensure labour and environmental standards are adhered to when releasing public funding. These include the maintenance of the level of employment and wages, the restraint of dividend distribution, the restraint of bonus payments to top managers, and an alignment of the company's global strategy with the EU's climate goals, in order to avoid the misuse of taxpayers' money.

Social and climate justice are non-negotiable building blocks to exit this energy crisis. To this end, The Left in the European Parliament has outlined 10 key demands, including a price cap based on production costs and a permanent tax on windfall profits that is not limited to the energy sector. We need an energy model under public control that can finally direct investments towards promoting social and climate justice.