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Wasted Energy

By George A. Pieler and Jens F. Laurson

Entered with high hopes, Europe's recent economic summit -- which focused on energy -- produced but a damp squib: agreement on process to explore agreement on major issues, with no substantive accord at all. Meanwhile Brussels asserts power over power for power's sake, using competition policy to show it's "doing something" about energy.

So much for the challenge articulated by the *Financial Times* -- "[protectionism] is most rampant in the energy sector, which is in turn in greatest need of a new EU-wide policy to maximize efficiency and to minimize import dependence and pollution." Exactly -- energy policy is inseparable from economic policy, and what Europe needs is more efficiency-enhancing economic openness to the world.

But ideological barriers and resurgent nationalist sentiment block Europe from boosting nuclear energy (France yes, Germany no) and German intransigence blocks Angela Merkel from being an effective energy mediator within Europe. Excessive regulatory interference, meanwhile, hinders Europe from advancing in technology and productivity as fast as it could.

On energy specifics, Europe's paper commitment to Kyoto greenhouse gas limits pushes so-called renewables like wind, solar, and bio-fuels. These are all unsuitable for large scale energy production despite heavy subsidies, and even then rarely economically viable. And since the construction of wind-power generators consumes nearly the amount of energy than they produce over time, they become tools of energy *storage* that leave a massive, disruptive "footprint" on the landscape.

Nuclear energy, which Germany is phasing out, is a much more viable candidate for diversifying the energy mix. Peter Huber and Mark Mills, authors of the book "The Bottomless Well," show the typical Chicagoan's energy use requires burning massive amounts of coal but only a tiny deployment of uranium in a reactor. It's more efficient with less impact on environment. Modern Western reactors set new safety standards which can be shared with countries using "last generation" systems. Efficient modern reactors significantly reduce nuclear waste and may pose fewer problems on balance than mining and burning coal.

But should Europe pick energy winners and losers based on current data?

Economic history shows that flexibility and ability to innovate are the long-run determinants of success. For modern governments that means energy diversification (where even less viable renewables like wind can play); minimal interference with market forces, including the kind of interference that stops logical business combinations at the border; and low levels of tax and regulation.

Little of that made Europe's summit agenda. Wearing her sensibility cap, German Chancellor Angela Merkel argued, "We don't need any new powers for Europe, but better coordination of energy policy." Her foreign minister, Frank-Walter Steinmeier, said, "In view of our great mutual dependency in the area of energy, our chief goal must be the reciprocal opening of markets." A good sentiment, but markets can be opened without reciprocity -- the question is whether Europe can stop them from being closed.

Broader economic reforms would trump mere agreement-to-not-agree on energy strategy. A business and tax climate aimed at improved productivity and efficiency allows less energy to drive each unit of production. With a light hand

from Brussels, EU members could experiment along these lines rather than pursue a lowest-common-denominator agreement.

Geopolitics can't be ignored. Russia as the G8 summit host is criticized, given its brazen manipulation of natural gas flow to Europe, Putin's increasingly authoritarian role in the state, and his legal assault on private sector energy. Russia will play the "China card" against Europe with its agreement to transport gas from Siberia to China and exploration of a crude pipeline to Daqing. While the West depends heavily on Russian energy, Russia has the power to cause short-term harm. Still: Russia needs revenue from its energy resources as much as its customers need the energy.

That's the great thing about markets, they are inherently a two-way street. Inexorably, global markets make us all interdependent, and the more open they are, the less any one player in the market can use market power as a political weapon. Free movement of goods, services, capital and labor across national boundaries truly is the best "energy security" strategy Europe could devise.

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