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Europe’s Renewable Energy: The Law of Unintended Consequences

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The problem with government backing winners and losers in the marketplace is that the Law of Unintended Consequences inevitably kicks in. And never so demonstrably as in ‘squaring the circle’ of energy security ‘needs’ with ludicrously ambitious environmental ‘wants’.

Not only is the hindering of fossil fuel generated power generation forcing a worrying trend in the early closure of national power plants – threatening power outages – it is also reducing the commercial viability of manufacturers in the global marketplace. From Australia to the United States to Asia, observers are increasingly noting how Europe has become the benchmark for how-not-to play the global power game.

Time and again I have had cause to point out how the European Union’s dual energy and environment policies are, fundamentally, at odds with one another. While polls have shown many Europeans approve of a switch to ‘cleaner energy’, they are now revealing a marked reluctance to pay for it.

Let’s take a quick look at the leading European players pursuing the renewable energy ‘dream’. First up: Germany. In a poll in January 2012, in the wake of the 2011 Japan’s Fukushima nuclear disaster, 61 percent of Germans said they would be prepared to pay more for electricity generated from renewable sources. According to a more recent poll by German pollster Forsa, however, 1 in 2 Germans are now critical of government policy specifically citing the “preferential

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treatment of renewable energy generators" as the chief cause of soaring energy prices.

If there is a message to be gotten across to Joe Public it's this: there's no such thing as 'free' solar, wind or any other 'clean energy' source. Someone, somewhere always has to pay for them. And they will *always* cost far more than hydrocarbons – don't believe the green hype believe the physics – *due to the lack of density in wind and sun*. The bulk of that subsidized

levies in their domestic bills.

In 2013 in Germany, state sanctioned surcharge exemption for energy-intensive industry will drive the price to the domestic user even higher. One assessment predicts the renewables surcharge is set to exceed $9.3 billion for the first time. The strain on German power generation has this year plainly reached breaking point. German power major RWE has just announced it is to shut down six domestic plants as a result of a major fall in profits, partly due to reduced demand, partly due to high energy costs. Speaking in early August, RWE's finance chief Bernhard Guenther said that "many of our plants are operating at a loss". That's a significant loss of 4,300 megawatts to Germany's (and the Netherlands) already strained capacity. Such are the costs being incurred by the German power sector labouring under government regulations that strictly favour renewables, E.ON is threatening to relocate to Turkey. According to their chief executive, E.ON plants in Germany are essentially now "working for nothing". Just for good measure, Norway's Statkraft has also just pulled the plug on investment in two proposed German plants. A total of 15 coal-fired power plants are currently in the queue for closure licences due to their non-viability. All of this *in addition to,* as I reported in June, the bulk of Germany's solar sector going belly up just months ago.

With the European Investment Bank and the World Bank both recently revising their lending criteria to curb loans to coal-fired plants in a bid to force states to meet climate targets, the pressure from rising domestic prices and from a power sector in crisis is now forcing a re-think of the 'Green Chancellor's' policies. With re-election on September 22 now looking anything but a certainty, Angela Merkel is promising to rein in Germany's generous renewable subsidy regime. In early August, Merkel told an energy conference, "Dealing with renewable energy reform is the most urgent of the energy topics".

The economics are becoming just as problematic for the UK Europe's other renewable energy leader. As a direct result of the EU's Large Combustion Plant Directive, RWE-operated Tilbury power station on the banks of the River Thames, a plant generating enough power for the whole of one of the UK's largest counties, is being closed down. Forced to re-consider its source of energy generation Tilbury was looking at biomass. But that was ruled out in August when the UK government, already attempting to scale back its own heavy renewable subsidies regime, refused to stump up another £450 investment to build a new biomass burning plant. It was one more public subsidy too far.

And the UK Government has already had one serious warning over its green energy bias. In January 2103, the UK was just "a few hours away from running out of gas". Yet UK government

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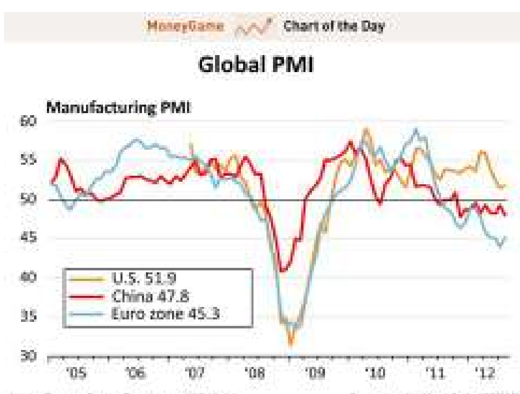
energy consumption and characteristics August 19, 2013 energy policy continues to be torn between the bias towards renewable energy policies of Lib Dem energy secretary Ed Davey and Osborne’s Conservative Treasury’s desire to reduce renewable subsidies. While Osborne and co. are clearly keen to push ahead with extracting the UK’s potentially world class shale gas and shale oil resources, energy secretary Ed Davey has called for the EU to impose even more stringent emission targets. Yet, according to the Department of Energy and Climate Change’s own figures, coal will be responsible for making up one-third of UK energy generation for some while to come. All of which is leaving the UK, somewhat absurdly considering its proximity to huge deposits of shale gas, *increasingly* dependent upon European, Russian and Middle East fossil fuel imports.

But once again, the Law of Unintended Consequences is undermining Europe’s decarbonisation programme. The combination of high gas and oil prices coupled with the collapse of the carbon price is fuelling – oops – a new coal boom among European industries.

Just across the Atlantic, however, despite all of President Obama’s anti-fossil fuel rhetoric, the impact of the shale gas and oil boom has led to its revived manufacturing industry becoming the envy of the world. American manufacturing since 2009 – dare we say, since the economic benefits of the shale gas revolution kicked in? – has outstripped both China and Europe.

A glance at the chart below of the leading PMI (Purchasing Managers Index), produced by Reuters’ Scotty Barber, says it all.



The problems associated with Germany and the UK’s ‘forced’ switch to so-called renewable energy – an oxymoron given the poor return on investment of renewable energy – are not just confined to two of Europe’s leading economies. The warning to any economy that buys into the future-is-renewable-energy fantasy is plain enough. For decades, even centuries, the future will continue to be *primarily* fossil-fuelled.

Still, with few industries left actually to buy them, the EU political elite could suggest that the fuel poor burn ‘two-a-penny’ carbon permits to keep warm this winter.

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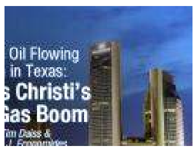
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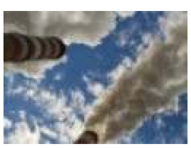
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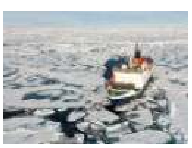
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