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Europe Faces a Crisis in Energy Costs

By STANLEY REED
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LONDON — The signs are everywhere. Britain has been unable to reach a deal for its first new nuclear power station since the 1990s. Spain, once a clean-energy enthusiast, has slashed its backing for wind and solar power.

Even the European Union's flagship environmental achievement of recent years, its Emissions Trading System for carbon dioxide, is beset by existential doubts. On Tuesday, the European Parliament batted away an effort to bolster anemic carbon prices on the E.T.S.

Prices for permits to emit greenhouse gases, which have fallen as low as €3 per metric ton, are just a fraction of what they were a few years ago, meaning that they are no longer doing their intended job of inducing utilities and manufacturers to invest in new technology and switch to cleaner fuels.

Evidently, members of the European Parliament were more concerned about any further raising of energy costs that some European companies already say are putting them at a competitive disadvantage.

Europe is lurching through an energy crisis that in many respects parallels its seemingly unending economic crisis. Across Europe, consumer groups, governments and manufacturers are asking how their future energy needs can be met affordably and responsibly.

It is a question that is far more acute than in the United States, where the shale gas revolution has done wonders to ease energy angst. "Europeans are getting increasingly concerned about energy," said Corin Taylor, an analyst at the Institute of Directors, a British business group. "Manufacturers are looking at U.S. energy prices with envy, and if they can, they are making investments in North America."

European countries have yet to demonstrate that they can or in some cases even want to exploit their own potential shale gas troves. At the same time, most of Europe's indigenous sources of oil and natural gas are in decline, making increased dependence on imports almost inevitable.

In some ways, Europe is a victim of its own success. It has made remarkable progress in switching to a future beyond oil and natural gas. For instance, last year, a hefty 23 percent of European power demand was met by electricity generated by renewable sources like wind and solar, compared with just 13 percent in 2002. This shift was "driven primarily by generous support policies for renewables," said Susanne Hounsell, an analyst at the energy research firm IHS CERA in Paris.

But achievements like that have also brought problems. Most green electricity sources cannot compete with coal and natural gas on their own and require subsidies that are passed on to industry and consumers. The more power they generate, the higher those costs. Direct charges for renewables add about 18 percent to German household electric bills, with indirect costs putting on more.

In Britain, climate charges add 19 percent to the electricity prices that large manufacturers pay, according to Jeremy Nicholson, director of the Energy Intensive Users Group, which represents heavy industry. That helps make industrial processes that are heavy users of electricity, like aluminum smelting or steel making, endangered species in Britain.

Europe's energy policies were conceived in a very different era, the early to mid-2000s and even before, when economic growth was robust and there seemed to be lots of leeway to add a few euros onto the cost of electricity, if that might help combat climate change.

In Europe today, to take only a couple of examples, steel production is down about 30 percent since before the financial crisis, and new car sales hit their lowest level last year since 1995. It is hard not to conclude that economic activity like manufacturing is decamping and moving to places like Asia and, increasingly, the United States.

European energy policy makers do not seem to have figured out that the world has changed. Britain, for instance, has just instituted a carbon tax on top of E.U.-wide carbon charges. The effort to raise the carbon price on the E.T.S. while Cyprus was melting down is another sign of tin-eared European policy making.

The vote against the changes to the E.T.S. could prove a wake-up call. Europe is probably going to achieve its objective of cutting greenhouse gas emissions 20 percent from 1990 levels by 2020 — mainly because the recession has cut industrial production and even driving. Now comes the harder part: cutting emissions 90 percent or so by 2050. Baby steps like a mini carbon tax are not going to get Europe there, analysts say.

A real debate on energy may be in the cards for the first time in years. "We are in the realpolitik of climate change now, where costs and competitiveness do matter," said Fabien Roques, another analyst at IHS CERA.

“Our whole energy policy needs to be rethought. We don’t need to go for hell for leather in one go to meet targets,” said Ann Robinson, head of consumer affairs at uSwitch, a British company that provides consumer advice.

Ms. Robinson argues that instead of rushing huge investments into largely unproven and enormously expensive technologies like offshore wind, a phased approach would be preferable and would leave time for scientific advances that might produce cheaper and more effective solutions. Britain, where the average annual household energy bill has doubled to about £1,335, or $2,040, since 2006, is approaching a “tipping point” where large numbers of people decide to “switch off heat permanently,” she said.

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