

**SECOND RAPPORT ON
ECONOMIC AND SOCIAL
COHESION:
THE ROLE OF ENERGY**

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CHAPTER 1.

Introduction

1.1. Energy and cohesion

Energy is a crucial element, which can have a positive or negative bearing on the attainment of any degree of social and economic cohesion, both on regions and on different sectors of society.

The availability of stable and reliable energy supplies, at competitive prices, is a necessary though not sufficient condition for the development of regions as well as individual well being.

It is well known that energy is fundamental to the movement of goods and people, to agricultural and industrial transformation and to the provision of many services. Furthermore, without energy no society can ever be strong and robust.

By economic and social cohesion we understand a concept of development that includes two basic tenets:

- 1) Reduction in the differences in the levels of per capita income and well being among citizens of different territories, especially with regard to the regions and countries of the EU. The aim is more rapid growth in less privileged areas; energy can play a significant role in the attainment of this objective, in as much as reliable supply and stable costs are elements that influence the level of competitiveness of companies situated in those regions and also lead to an improvement in the level of individual well-being.

- 2) Improvement in the standard of living of citizens, with special regard to the conservation of the environment. The level and structure of energy consumption, as well as the specific features of the relevant business sectors have a very significant bearing on the environmental conditions of each territory.

Differences in the availability and reliability of supply, in terms of quality and absolute prices (of the same final energy source in different territories) or differences in relative prices (of different replaceable final energy sources) of energy from region to region or among different types of consumers, with no corresponding differences in objective costs, have a decisive effect on territorial cohesion in the EU, economically and socially.

1.2. Analytical approach

The aim of our analysis and subsequent comments is to take an in depth look at the factors that account for those differences in terms of price and the reliability and stability of supply, and at how those differences affect cohesion, in one way or another.

An analysis of the energy situation in Europe as well as those countries on the brink of adhesion to the EU reveals different situations in terms of price and cost, stability, quality and availability, from region to region and for different groups of consumers.

So one of our first tasks would be to clarify those differences that might be reasonably identified¹ given certain economic factors, and those differences that are due to economic factors that might have been “artificially created”².

¹ Such as lower freight costs in one given place as opposed to another, which would justify lower prices; extreme weather conditions, which could explain differences in quality of supply in different regions; differences of availability of cheap sources of generation, such as hydraulic energy, which would, in turn, explain lower prices.

² Such as arbitrary transport tolls in different countries, which would create “artificial” difficulties for the energy flow from one place to another, or duty to be paid for final energy which may not be in common use from region to region, which would explain different prices.

It must also be pointed out that energy has been, and is, an object or a means towards the achievement of certain ends far removed from efficiency in strictly economic terms or from social and economic cohesion (taxes, protection of certain economic activities) as well as a battle ground for certain very powerful, and opposing, interests. This only makes the analysis more difficult.

Attempting to determine what is “economically reasonable” and what is not, is an extremely complex task, and would force us to the rigid classification of certain differentiating factors that are difficult to categorise. We are, here, referring to historical decisions taken for investment, in nuclear plants for electrical generation, for example, which, given that in certain regions such an alternative was chosen ahead of others, explains, to a certain degree, certain differences in the level of external dependence as well as cost/price differences. And that would be a useless, not to mention, highly controversial exercise.

But price/cost differences, as well as quality, availability and stability may be attributed to many different factors. In this work, we shall assume from the outset that the breadth of competitive or market mechanisms in all the different areas of energy (an issue on which the EU Commission has placed very special emphasis), would lead, in the medium term, to a situation in which the price of energy is close to the marginal cost of supply, which is the most efficient economic solution.

But is this the best solution, from the point of view of the attainment of greater social and economic cohesion?

This is the second question we wish to address, given that, theoretically at least, we may think that trying to achieve the most efficient economic solution could, in certain cases, either favour or prove to be a stumbling block to the objective of cohesion. Therefore, our second assumption is that the attainment of social and economic cohesion should depart from the basis of an efficient market.

Departing from such a premise, cohesion must also mean the establishment of certain minimum (or maximum) values for energy parameters such as security, quality, availability (on a European scale) and, thereafter, design certain objective and transparent mechanisms that allow for the attainment of such levels of stability, quality and availability. To that end, the programmes, lines of action and EU legislation - either

in place or being studied - are fundamental to the attainment of a greater level of social and economic cohesion.

1.3 Presentation of the report

This work is presented in five different chapters. In chapter 2, after this introduction, we shall give an overview of the energy sector in the EU, as well as that of every region, for primary as well as final sources of energy, in order to grasp the particular and structural conditions of every region, as well as their degree of homogeneity. The data used come from the International Agency for Energy of the OCDE.

We have chosen to identify regions with Member States, for several reasons. First of all because regulation, policy and statistics correspond to States and, except for energy prices, it is not always possible to find different figures for different regions. Furthermore, the “energy regions” are, in each case, determined by circumstances (for example the area of distribution of a big electricity company) which do not coincide with the administrative regions, as they are known at present.

It must also be pointed out that in addition to Member States, we also analyse Poland, The Czech Republic and Hungary.

Chapter 3 examines the regulatory aspects, for the EU as a whole as well as for every Member State. We will also examine the level of homogeneity of such regulations, which are the result, among other factors, of the structural conditions described in the previous chapter.

Chapter 4 analyses prices according to regions. We choose to distinguish between net prices, prices that include taxes and other levies, and the level of crossed subsidy that might exist among typical consumers. For this analysis, EUROSTAT was the basic source.

The following chapter is an analysis of the main EU policies and programmes regarding energy and the impact they have had on the regions.

II Rapport on Social and Economic Cohesion: Energy

In the final chapter we come to our major conclusions, based on the data and facts presented in the previous chapters, and make a series of recommendations regarding the impact the energy situation and the policies and programmes examined are likely to have on cohesion.