National tensions at EU summit centre on energy demands

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The European Union summit meeting last month produced a joint statement on a common energy policy. But it contained only generalities about opening up the energy market throughout the 25 member states and "increased cooperation" on external policy towards Russia and the OPEC countries.

After voters in France and Holland rejected the European constitution last year, because of widespread opposition to the "free market" policies associated with the EU project, Europe's leaders clearly felt it was politic to keep a low profile. The summit was supposed to discuss the Lisbon agenda—the programme for economic reform agreed at the Lisbon summit in 2000. EU countries agreed then to implement tax cuts, heath care and pension "reforms," and provisions to make it easier for companies to hire and fire workers—the policy now at the centre of the huge protests in France.

Proceedings at last month's summit were led by German Chancellor Angela Merkel and British Prime Minister Tony Blair.

Merkel described the summit as a "big qualitative step," hailing a discussion that "underlined that all member states agree that we need a coordinated joint energy policy." Blair claimed that "the direction is towards liberalisation" and that "the arguments are moving, in our view, in the right direction."

In reality, European governments have increasingly fallen back on national approaches and are deeply divided in relation to the most serious challenge of energy supply. The resulting tensions were given symbolic expression by the walkout of French President Jacques Chirac in protest at the use of English by a French industrialist in his remarks to the assembled heads of state. This expression of what French Prime Minister Dominique de Villepin has called "economic patriotism" was a populist stunt. Chirac and his ministers returned to the meeting after a short period. Nevertheless, it reflects the growing range of national differences that beset the European leaders.

In the weeks before the meeting, these tensions came to the fore, with accusations of "protectionism" ringing out across Europe.

In late February, E.ON, Germany's biggest power group, launched a €29 billion cash offer for Spain's Endesa. The *Financial Times* observed that this would have created the "world's biggest utility with 50 million customers across 30 countries in Europe and the Americas."

The bid trumped a rival bid from Gas Natural, and thus threatened the prospect of a Spanish "national champion." Spain's Socialist Party government of Prime Minister Jose Zapatero responded by declaring, "We will do everything in our power to ensure that Spain's energy companies remain Spanish." Madrid rushed through legislation after E.ON's bid that gives Spain's Energy Commission "powers to veto or impose conditions on takeovers of domestic utilities."

Shortly after E.ON's bid for Endesa, Gas de France and Suez, the Franco-Belgian power and water utility, announced plans to merge. This was widely interpreted as a move organised at the highest levels of the French state to stave off a prospective rival bid from Italy's Enel for Electrabel, a subsidiary of Suez, which is Belgium's largest power company. According to the *Financial Times,* the merged company would represent "Europe's second largest power group with a market value of €77 billion (US$87.8 billion)."

The Italian company, which is 30 percent state-owned, had lined up funding of some €50 billion to finance the takeover. The response by the Italian industry minister to the French counter-move was to cancel a meeting on February 27 with his French counterpart.

Poland also refused to allow its company Zespol Elektrowni Dolna Odra to be sold to Endesa.

Such protectionism is not restricted to the energy sector. Laksmi Mittal, the steel magnate and billionaire backer of the British Labour Party, was prevented from buying up the steel corporation Arcelor, based in Luxembourg. Mittal Steel is based in Rotterdam, but Luxembourg and France, where most of Arcelor's workforce is based, objected to the takeover.

On March 1, French Prime Minister de Villepin announced plans to make it harder for large French concerns to be taken over by increasing the government's share in companies in 11 "strategic sectors," which would enjoy legal protection from foreign takeovers. Last year, corporations, said to include PepsiCo, were warned off by France from buying the world's largest yoghurt maker Danone.

At the summit, Merkel called on the EU leaders "not to think only in national terms," but to agree to the creation and support of "European champions." Such champions would no doubt include E.ON. The *Financial Times* described her statements as a "thinly-veiled warning" to France and Spain to open their energy markets to foreign investment.

Chirac responded with the retort, "The construction of a Europe of energy cannot be confined to the liberalisation of markets." European champions should be encouraged, but should be "based on solid industrial ambition and not on a purely financial approach."

Italian Prime Minister Silvio Berlusconi, incensed at France's blocking of Enel's bid, lobbied EU leaders without success to sign a letter denouncing economic nationalism.

As well as disputes over the openness of markets and supporting different "European champions," there are other disagreements between the European states that undermine the commitment to a common energy policy, championed by Germany and Britain.

The main transmission grids that feed gas into Europe from Norway, Russia and North Africa are not connected with each other. There is agreement that these should be linked, but no agreement over the timetable or who should finance it.

Some countries, such as Germany and Holland, have large storage facilities but have refused to make them available to other nations except in a crisis. A proposal to create a European energy regulator was opposed by a number of countries, with Merkel saying Germany was "not ready to hand over any competences to the EU."

Given that at least a quarter of the EU's oil and gas is supplied by Russia, and that the Russian gas company Gazprom cut its supplies to Ukraine this January, creating shortages in Europe, a tougher stance by the assembled leaders would have been expected. But behind the scenes, there are sharp differences on external energy policy.

Under Germany's former chancellor Gerard Schröder, an agreement was made between the Germany energy giants E.ON, Wintershall and Gazprom to build the North Europe pipeline, which will send gas straight into Germany, bypassing Poland and the Baltic states. Britain is said to be a beneficiary of the arrangement. Schröder will be paid €250,000 a year to head the project.

Newly elected Polish President Lech Kaczynski visited Germany before the summit with a strategy paper objecting to the dominance of Gazprom over European energy supplies. Poland currently relies on Russia for two thirds of its gas and 97 percent of its oil.

Kaczynski's paper contained a clause calling on member states to support each other "in the event of a threat to their energy security from natural or political causes." The clause was modelled on NATO's Article 5, under which member states are committed to assist each other when threatened, and immediately raised the issue of European defence policy.

Merkel was clearly not prepared for an open confrontation with Russia in an area that is vital to Russia's national interests. Moscow depends on the energy sector for more than 60 percent of its exports.

The Polish proposals were therefore quietly shelved at the summit. Instead, the "EU-Russia Energy Dialogue" that began in 2000 with discussions between more than 100 European and Russian experts, from both industry and government, is set to continue. President of the European Commission José Manuel Barroso held talks with Russia's President Vladimir Putin that he described as "inspiring," but failed to get any agreement on European access to Russia's gas pipeline network.

Whilst the EU summit followed the United States in putting out a statement condemning the Belarus regime for its clampdown on political opponents, there were even disagreements among the leaders over this issue. Giving financial support to pro-Western opposition leaders and banning visas for Belarus officials was agreed on, but Poland feared that economic sanctions were going too far and, as Belarus's neighbour, would rebound on them.

In their discussion on the Lisbon agenda, the EU leaders agreed to a compromise communiqué calling for opening up the service sector to cross-border competition— the so-called Bolkestein Directive. This is designed to allow cross-border competition in the service sector that now accounts for 75 percent of the EU economy, and follows a decision made last month by the European parliament.

However, the financial press has been critical of the weakening of the bill originally proposed. The directive does not contain the "country of origin" principle which would have allowed service providers—such as in low-wage eastern Europe—to operate under their home state legislation, and means that the wealthier countries can insist that all companies provide social security and health benefits.

The EU governments are now subjected to continual pressure from a financial sector that demands further economic liberalisation. Last year, cross-European mergers rose to a five-year high of US$347 billion and are likely to be higher this year. Whilst economic growth remains far lower in the EU than in Japan and the United States, over the past two years earnings per share on the stock market have increased by 100 percent in Germany and 50 percent in France, compared to 35 percent in the US.

The BBC quoted German economist Ann Mettler of the Lisbon Council think-tank demanding more "free market" measures like the imposition of the "First Job Contract" (CPE) by the French government. Mettler explained the approach demanded by the major investors and corporations: "The reason employers shy away from hiring young people is that they can't fire them."

Luxembourg's prime minister, Jean-Claude Juncker, has been quoted as an example of the EU governments' response: "We know exactly what to do, but we do not know how to win the next elections after we have done it."

Commenting on the result of the EU summit, the *Financial Times* observed, "The proposed EU energy policy, although supported in principle by member states, is already under strain, with some capitals opposing a new European energy regulation to promote cross-border energy trading."

"There's neo-nationalism in Europe" remarked Columbia University Economics professor Xavier Sala-i Martin. "They don't even believe in their own project. They say they want a big market for capital and goods, but when it doesn't go well, they resort to neo-protectionism."