

Energy policies bringing Spain into conflict with European Commission

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The European Commission has decided to refer Spain to the European Court of Justice for its protectionist energy policies. The EC has determined that Spanish legislation limiting the voting rights of investors in state companies in the energy industry is in breach of European regulations guaranteeing the free movement of capital.

The legal proceedings are supplemented by further action against the Spanish government for increasing the powers of the National Energy Commission in order to rebuff a €29.1 billion bid by the German energy company E.ON for Spain's largest electricity supplier Endesa, worth €21 billion. Announcing that it would do everything in its power "to ensure that Spain's energy companies remain Spanish," the Socialist Party (PSOE) government gave the National Energy Commission powers to "veto or impose conditions" on foreign takeovers.

The PSOE sought to oppose the E.ON bid by supporting the hostile bid of another Spanish company, Gas Natural, while the right-wing opposition Popular Party denounced the government's intervention in the energy market. Last month's announcement that the Supreme Court had voted to suspend the government's authorisation of the Gas Natural bid led to calls from the PP for government explanations and for it to accept "political responsibilities."

The EC had given the Spanish government 10 days to provide a valid explanation for the new takeover rules before referral to the Court, which could result in heavy penalties. Charlie McGreevy, the EC's Internal Market Commissioner, warned Spain that the commission would "use every tool in the box to tackle member states who dream up new protectionist means or who seek to erect unjustified barriers to prevent cross-border deals."

The move against Spain is not an isolated incident. Many other European states face the same legal threats. Seventeen countries within the European Union were warned by the European commission over non-compliance with the opening of the energy sector to competition from companies from other EU nations. José Manuel Barroso, president of the European Commission, condemned economic nationalism as unacceptable, saying that building barriers within a single market would be "absurd." He described energy as a strategic sector that requires a "European strategy."

The German government also entered the dispute demanding that governments should "support European champions as opposed to national ones."

The struggle to dominate markets and supplies in Europe is intense, with national companies being championed over their "foreign rivals" in what French Prime Minister Dominique de Villepin has dubbed "economic patriotism." The governments that oppose protectionism, such as Germany, do so in the main because they believe that their own former national champions such as E.ON are best placed to become "European champions," but also because market liberalisation is the key demand of all the major global corporations.

This rise of protectionism is particularly acute not only because of the huge sums at stake, but because of a Europe-wide crisis over reliance on imported hydrocarbons such as oil and gas and the need to control these resources. As a recently published European Commission Green paper stated, "In the next 20 to 30 years around 70 percent of the Union's energy requirements, compared to 50 percent today, will be met by imported products—some from regions threatened by insecurity."

Russia's threat to cut off oil supplies to the Ukraine in January, and the political instability in the Persian Gulf caused by the increasing recklessness of US imperialism's intervention in the region, is causing most concern.

The world demand for energy is set to increase 60 percent by 2030, with residential electricity demand due to rise 119 percent over the same period. In 2005 Europe relied upon imports for around one-third of the estimated 532 billion cubic metres of natural gas it used. More than half of that was piped in from Russia. Based on scientific estimates of fossil fuel reserves, it is thought that supplies will dry up within 20 to 60 years.

Spain and Poland, two of the most vulnerable member states, signed a joint declaration on energy security in Madrid in March. Spanish Prime Minister José Luis Rodríguez Zapatero and his Polish counterpart Kazimierz Marcinkiewicz signed the document calling for the EU to take joint measures to protect energy supplies. The Spanish right-wing daily paper *ABC* reported the joint declaration saying, "The potential risk deriving from natural disasters, terrorist acts or from the social and political instability in any area of the world where energy supplies come from, clearly shows that the European Union, for the moment, lacks the appropriate instruments for protection and reaction."

Poland's concerns are due to its geopolitical position in relation to Germany on one side and Russia on the other. It is totally reliant on them for its energy sources. Poland currently depends on Russia for two thirds of its gas and 97 percent of its oil. It is also

concerned about possible takeovers, having recently blocked the sale of Zespol Elektrowni Dolna Odra to Endesa.

Spain also relies on a constant supply of hydrocarbons, as its own reserves and stockpiles are negligible. Price fluctuations will thus have a major impact on its economy.

Demand for oil and gas has grown enormously in recent years. According to a paper by Paul Isbell, senior analyst for international economy at the Elcano Royal Institute, oil consumption in Spain has grown by 4.5 percent per year on average since 1965, as against a world average of 2.5 percent. In the last 10 years, the Spanish increase in oil consumption (3.5 percent) is almost double the international average of 1.8 percent. The estimated daily consumption is 1.6 million barrels of oil.

According to Isbell, the demand for gas shows the same tendencies, with natural gas consumption increasing on average by 15 percent in the last 10 years. Since 1993, natural gas consumption has risen by nearly 275 percent. Oil and gas together constitute 70 percent of the primary energy consumed in Spain, a level much higher than the European average of 64 percent. Isbell notes that this is an indicator that Spain is even more dependent on the main hydrocarbons than other developing countries. The rate is 65 percent in the US, 64 percent across the OECD, and 61 percent in the world as a whole.

In 2004, 99 percent of gas and 99.6 percent of oil was imported. Spain is in part dependent on countries with limited ability to increase their supply if other producers fall short for whatever reason. From 2005 Mexico was the main exporter of oil to Spain, meeting 15.1 percent of requirements. It was followed by Russia with 13.6 percent, Nigeria with 11.5 percent and Saudi Arabia with 11.4 percent. Over half of Spanish oil comes from these four producers.

Spain's gas demands are even more problematic, with natural gas having risen from 2 percent of total energy consumption in 1980 to nearly 15 percent in 2002. Here again Spain is reliant on suppliers in North Africa and the Middle East. Over 68 percent of Spanish supplies come from three African countries, with 44.9 percent coming from Algeria alone. Other significant suppliers are Nigeria, Qatar, Egypt, Oman and Libya. There is a real concern in the Spanish ruling class that their oil supplies are so dependent on what Paul Isbell calls "countries that are not democratically consolidated or whose regimes are not stable or predictable." A further 11 percent of its oil supplies come from "African countries with similar characteristics."

The crucial position of Russia in relation to the European energy market was highlighted by President Vladimir Putin's visit last month to Beijing to sign a deal to provide two natural gas pipelines. Analysts noted that the Russians appeared to be playing Europe and China off against each other, with Gazprom's spokesman saying that future increases in gas supplies to Europe would be "subject to arbitrage between China and European countries."

The recent visit by President Putin to Algeria also raised concern in Spain. A \$7.5 billion arms deal between the two countries involved deep collaboration in energy. Russia obtained rights for oil production in the Sahara, Gazprom will develop Algeria's gas sector, and Algeria will share its advanced gas liquefaction

technologies. Commentators have noted that Algeria is currently Europe's "only viable" alternative source of gas.

The Algerian-Russian agreements have overturned the Euro-Mediterranean Energy Forum, formed in 1995 in order to secure supplies to Europe and develop an energy-free trade area surrounding the entire Mediterranean. Its remit was to establish an energy source around the Maghreb, including Morocco, Algeria and Tunisia; it also planned an electricity development connecting Morocco, Spain, Greece and Turkey, as part of an electricity ring allowing power transmission from one end of the Mediterranean to the other. The entire scheme cost billions of euros.

The commission's primary aim was to increase gas transport between Algeria, France and Spain and establish an Arab-EU gas link between Egypt, Syrian, the Lebanon, Cyprus, Turkey and the EU. Once in the EU, the gas could be transported as far as the Baltic.

The Maghreb pipeline operated by Metragaz, a company affiliated to Spain's Gas Natural, is one of the world's most important pipelines. It carries natural gas from Algeria via Morocco to Spain and Portugal, a total distance of 1375 kilometres. After an upgrade in 2005 it increased its capacity by half. It is now vital to Spain's basic energy requirements.

The concern for Europe is that unless it can determine its energy policy collectively, it is more susceptible to prices being determined by external suppliers. At the same time, the ruling classes of individual member states are being driven more and more to defend their national policies. This is the logic of the Spanish government's determination to bring together Gas Natural and Endesa, the two main Spanish energy companies, and explains their hostility to the E.ON proposed takeover. The issue is who will control Spain's energy needs, which is intensifying rivalries between both nation states and trade blocs.



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