

Published by the European Trade Union Institute (ETUI), 2015  
ISBN 978-2-87452-364-9  
173 pages, 20 €

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The ETUI is financially supported by the European Union. The European Union is not responsible for any use made of the information contained in this publication.

# Europe's energy transformation in the austerity trap

Edited by Béla Galgóczi

“Energy transformation deadlock: putting low-carbon future at risk”

Our planetary limits demand a radical transition from the energy-intensive economic model towards a more sustainable and equitable model. Energy transformation in Europe became a hostage of austerity, while regulatory uncertainty, design failures of incentive systems, and unjust burden-sharing also contributed to the reversal of progress that we are currently witnessing across Europe. Three country cases will highlight the different facets of these conflicts and contradictions.

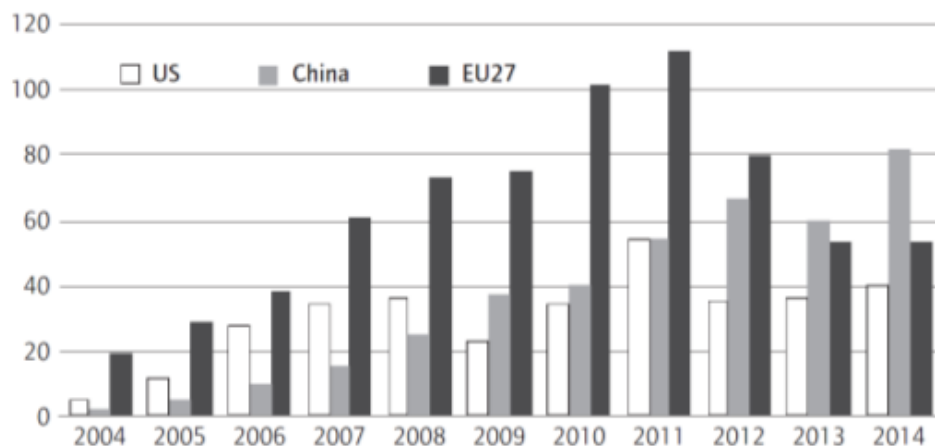
## Key findings

- There has been an erosion of Europe's leading role in the green transformation. Between 2004 and 2011, clean energy investment in Europe rose six-fold and Europe was outperforming China and the US combined. However, as from 2012, there has been a spectacular collapse; by the end of 2014 clean energy investment in Europe had fallen by 53% from its peak level in 2011.
- The ambitious German Energiewende lost its momentum while a full reversal of previously achieved progress took place in Spain and Italy. In the latter, a lack of coherence and absence of industrial policy together played a key role in derailing a promising experiment in energy transformation.
- The Italian case shows how several years of recession in the austerity trap can undermine a formerly existing consensus over burden-sharing. The Spanish case, meanwhile, shows how austerity and political lobbying power on the part of major energy companies can undermine the whole regulatory system for promoting renewable energy generation, thereby jeopardising years of progress and hundreds of thousands of jobs, as well as energy security.
- The backlash of the poor performance of key European countries in terms of energy transformation demonstrates the detrimental effects of austerity policies and of the broader adjustment policy that sees future investment in this sphere as exclusively a cost factor. Not only does this short-sighted policy result in an energy policy reversal, thereby jeopardising mid- and long-term climate policy targets; at the same time, by paralysing public and private investment, it cancels out millions of potential jobs and undermines the future of European low-carbon technologies. According to IRENA (2014), while in 2012 China created some 1.2 million jobs in solar PV industry, Germany lost 56 thousand.
- Managing the transformation process towards a low-carbon economy, and in particular the transformation of energy production and consumption away from fossil fuels towards renewable energy, requires a comprehensive policy framework and a determined but balanced implementation practice. The past six years of economic crisis have demonstrated clearly that, in the absence of such a framework and without a clear long-term commitment, short-term economic interests will prevail

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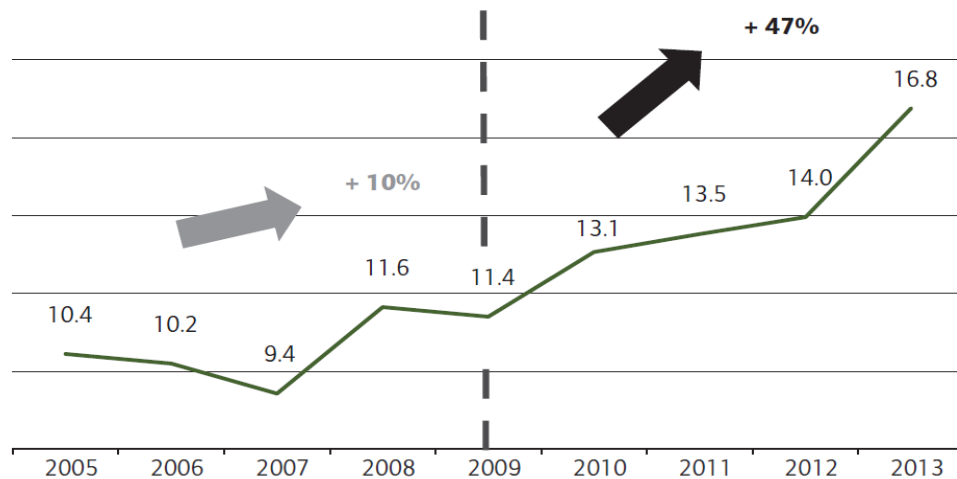
## Key data

Figure 1 Europe is losing ground: New Investment into renewables energy (Bn USD)



Source: Bloomberg New Energy Foundation, BNEF, 2014, 2015.

Figure 2 Germany: Total financial exemptions with regard to the power price of the industry sector (Bn €)



Source: Rosenkranz *et al.* 2013: 22.

### Two examples of distorted and unjust incentives in energy policy:

- In financing clean energy through the feed-in tariff, German households and SMEs pay a surcharge while big industry enjoys exemptions which grew by 47% between 2009 and 2014 (see Borbonus in the publication).
- In Italy 2.4% of the installed solar power plants received 76.7% of the total subsidies, and these were often large investments made by private equity firms (see Rondinella and Grimaccia in the publication).

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