GREENPEACE media briefing

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Locked in the past

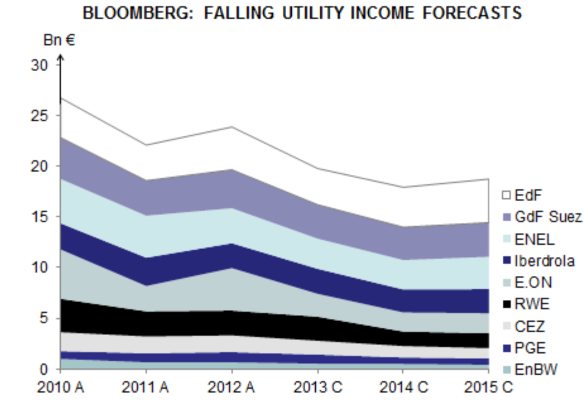
New report explores why Europe's big energy companies fear change

The EU climate and energy policy framework for 2030 will set the direction for Europe's energy system until the middle of the century. The bloc has already adopted three targets for 2020: a 20 per cent reduction of carbon emissions, an increase in the share of renewable energy to 20 per cent, and 20 per cent of energy savings. As the political battle for 2030 policy heats up, some of Europe's largest power companies want the EU to drop renewable energy and energy efficiency targets and instead restrict measures to a single carbon reduction target. They believe this would allow them the flexibility to continue generating power from large-scale coal, gas and nuclear plants. Additional targets for renewables and efficiency would threaten their traditional business models and foster investments in renewable energy and efficiency technologies.

A report by Greenpeace, *Locked in the past: why Europe's big energy companies fear change*, investigates the real reasons for the opposition to renewable energy by big utilities. It looks into the their failure to adapt to changing market conditions and argues the EU should shepherd companies towards more economically sustainable business models that are consistent with energy and climate change policies. To help achieve this, the EU should pursue its three target approach for 2030.

Economic woes

Europe's biggest energy companies are in trouble. Their earnings, credit ratings and profits are falling, share prices are underperforming and business outlooks are gloomy (see figure 1). Since 2008, the EU's top 20 utilities have lost over half a trillion euros in share value [1]. Many of them have added to their own woes by failing to adapt to policy changes such as deregulation, phase-outs of nuclear energy, support for renewable energy, and stricter regulation on air pollution and carbon emissions. Energy companies are also confronted with slowing demand, gas and coal market shifts, and the emergence of viable renewable energy generation by private citizens (outside their control) [2].

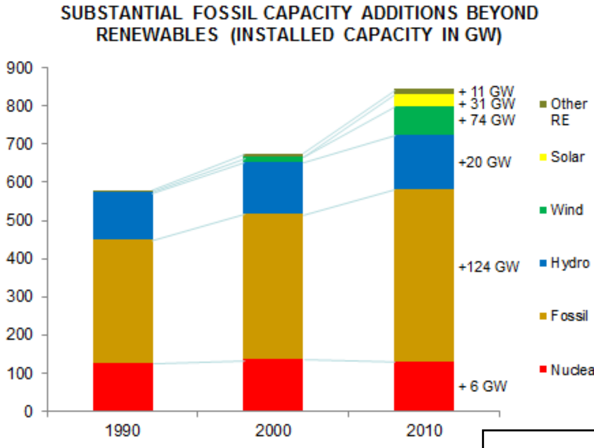


Source: Bloomberg Professional/Bloomberg Industries/Utilities

Figure 1

Fossil fuel rush

Utilities have made matters worse by continuing major investments in coal and gas alongside investments in renewables. European investments in fossil fuels have actually accelerated in the two decades since 1990, reaching a total of 124 gigawatts (GW) in added capacity – compared to 116 GW for non-hydro renewables (see figure 2). Fossil fuels and nuclear energy still make up 62 per cent of power capacity in Europe, while renewables account for 33 per cent (including hydro) [3].



Source: Eurelectic Power statistics

Figure 2

Since 2003, energy companies have added about 85 GW of fossil fuel capacity to their European portfolios, about the equivalent of all of Germany's fossil fuel power plants [4]. This expansion is expected to continue in coming years, even though electricity demand will continue to flatline [5].

Analysts say that over-capacity from fossil plants is so high that utilities need to shut down about 50 GW of their fossil power capacity by 2017 if they want to maintain even their diminished 2012 profit levels [6].

Power giants, dwarfs in renewables

Europe's ten largest utilities generated more than half of all power within the EU in 2012, but only four per cent of this was from non-hydro renewable sources (see graph below). While traditional investments in fossils and nuclear power are slashing profits and income forecasts, these small investments in renewable energy installations are performing comparatively well.

Iberdrola, E.ON and Enel are estimated to have made a total of €4-5bn in annual earnings from their renewables businesses [7]. J.P. Morgan also puts a much higher value on E.ON's renewables business than its conventional generation business [8].

	EdF	RWE	E.ON	Enel	GdF Suez	Vatten -fall	Iber- drola	CEZ	EnBW	PGE	All top 10
Share of EU power generation	20.0%	7.4%	6.2%	5.9%	5.4%	5.3%	2.5%	2.2%	1.9%	1.9%	**58.7%**
Share of wind power	0.8%	2.1%	2.2%	3.6%	3.8%	2.4%	20.9%	1.4%	0.8%	0.2%	2.7%
Share of other (non-hydro) renewables	0.6%	1.8%	1.0%	3.1%	2.2%	1.6%	0.9%	1.6%	0.6%	2.6%	1.4%
Total share of all (non-hydro) renewables	1.4%	3.9%	3.2%	6.7%	6.0%	4.0%	21.8%	3.0%	1.4%	2.8%	**4.1%***

Table 1 *Weighted according to companies' share of EU power generation

Source: Company reports, Eurostat

Sticking to traditional business models, it seems, is not working. RWE's CEO Peter Terium has called the current period the "*valley of tears*", which could be "*deep and long*" as "*our traditional business model is collapsing under our feet*" [9]. He said it is *"the worst structural crisis in the history of energy supply"* [10].

Battle lines drawn

While Europe's largest utilities insist on sticking to their established business models, some of the smaller companies have responded more quickly to political and market changes. For example, Dong Energy and EDP have built up more balanced portfolios, which include higher shares of renewables. Their renewables assets are generating more profits than other assets [11].

As a result, Eurelectric, the lobby group for European power utilities, is deeply split. Within its current leadership, president Johannes Teyssen of E.ON and vice-president Henri Proglio of EdF strongly oppose any EU energy targets for 2030, while vice-president Antonio Mexa of EDP is in favour of renewables and efficiency targets.

As their established lobby structures are failing them, some of Europe's largest utilities have formed the so-called Magritte group, which was set up in May 2013 in Brussels' GDF-sponsored museum dedicated to the surrealist artist. The group brings together some of Europe's largest carbon emitters to lobby European politicians on energy and climate change policies.

Typically, members of the group are active in both power generation and fossil fuel extraction. GDF-Suez, the leader of the group, is not only Europe's fourth-largest power producer, but also its second-largest supplier of natural gas [12]. ENI, another active member, is mainly involved in oil and gas extraction and only has 5.3 GW of power generation capacity in Europe [13]. Other members of the group include RWE, E.ON, Enel, Vattenfall, Iberdrola, CEZ, OMV, Fortum, Gas Terra and Gas Natural. The combined emissions of RWE, GDF-Suez, E.ON and Enel alone are greater than those of Poland and the Netherlands [14].

Conspicuously absent from the group is EdF, Europe's biggest utility which is responsible for around 20 per cent of all power generation in the EU (see figure 2). The company is less involved in fossil fuels and produces 75 per cent of its power in Europe from nuclear energy. Proglio says EdF's challenges are very different from those of its European peers [15].

Defending the status-quo

The Magritte group opposes multiple targets for 2030 and instead backs a single carbon reduction target. The group also favours an end to subsidies for 'mature' renewable energy technologies like onshore wind and solar power. E.ON's Teyssen said: *"renewable subsidies are reaching a level that is totally unbearable"* [16], while Enel CEO Fulvio Conti spoke of the *"insanity of subsidies given to renewables"* [17]. Instead, the companies want governments to fund gas and coal plants as backup capacity.

While not formally a part of the Magritte group, EdF also opposes any European targets for renewable energy and energy savings for 2030.

A carbon-only EU target and a shift in subsidies may buy energy companies some time, but a strategic re-orientation is unavoidable to ensure the long-term viability of Europe's utilities. Senior analysts warn that *"they need to focus on services, look at renewables, smart grids and new technologies like battery storage rather than clinging to thermal generation"* [18].

Wind of change

At the other end of the spectrum from the Magritte group, the CEOs of six energy companies, including Acciona Energía, Alstom, ERG, Enercon, RES and Vestas have come together in support of a 30 percent renewable energy target for 2030 that is binding on all 28 EU member states [19]. The companies are part of a wider coalition, which includes EnBW, SSE, Dong and Verbund, calling for a strong 2030 policy framework and targets [20].

The European Parliament also backs a 30 percent binding target for renewable energy, as well as a target to reduce energy consumption by 40 percent by 2030. But in its communication on 2030 climate and energy policy in January 2014, the European Commission supports a renewable energy share of at least 27%, which is what a weak carbon target would deliver on its own [21].

Without steering from Europe's politicians, energy companies that are stuck in the past will probably cling to their failing business models and continue ignoring the promising signs of change, to the detriment of their customers and their shareholders. European governments should build on the EU's 2020 climate and energy package and adopt three binding 2030 targets to cut carbon emissions by at least 55 per cent, increase the share of renewables to 45 per cent and improve efficiency by 40 per cent.

Notes:

[1] The Economist, 12 October 2013, *European utilities: How to lose half a trillion Euros – Europe's electricity providers face en existential threat*: http://econ.st/1cYIvEV

[2] For example, about half of Germany's onshore wind and solar generation capacity is owned by private citizens and farmers.

[3] Eurelectric, 2013, *Power statistics and trends*: http://www.eurelectric.org/media/113667/power_statistics_and__trends_2013-2013-2710-0001-01-e.pdf

[4] Platts Power Plants Database, December 2013.

[5] Electricity demand in the EU-27 fell by around 2.5 per cent from 2007 to 2012, according to Eurelectric. In its *Trends to 2030*, the European Commission expects less than 0.5 per cent demand growth every year up to 2020: http://ec.europa.eu/energy/observatory/trends_2030/doc/trends_to_2050_update_2013.pdf

[6] Bloomberg, 7 March 2013, *Utilities need to close 30% of European power plants, UBS says*: http://bloom.bg/1a0xpNW

[7] Iberdrola, 23 October 2012, *Outlook 2012-14:* http://bit.ly/1cF6PxY; E.ON, 13 March 2013, *Full year 2012 results:* http://bit.ly/1d6oFq2; Bloomberg Professional, *Enel IM Equity, FA – financial analysis, Segments*, December 2013.

[8] J.P. Morgan, 19 November 2013, *German Utilities: RWE: balance sheet story continuing to unfold, maintain preference vs. EON*.

[9] Dpa-AFX: AUSBLICK 2014, 5 January 2014, *Versorger rufen aus dem `Tal der Tränen' nach der Politik*: http://yhoo.it/1ehdA7g

[10] Financial Times, 20 February 2014, *Power down*: http://www.ft.com/cms/s/0/5eb3d2e6-97bc-11e3-8dc3-00144feab7de.html

[11] Dong Energy, 23 October 2013, *Interim financial report. First nine months 2013*: http://bit.ly/19SdINE; EDP, 1 November 2013, *Results presentation 9M2013*: http://bit.ly/1lL7miW
[12] GDF Suez, 2013, *Key figures:* http://www.gdfsuez.com/en/
[13] Eni: http://www.eni.com/en_IT/company/operations-strategies/gas-power/power-generation-gas/gas-power-power-generation.shtml
[14] Carbon emissions for RWE (181,690,000 tCO_2eq), GDF-Suez (154,230,874 tCO_2eq), E.ON (126,871,536 tCO_2eq) and Enel (127,801,261 tCO_2eq) are reported in *Carbon Disclosure Project*, 12 September 2013, *Global 500 Climate Change Report 2013:* https://www.cdp.net/CDPResults/CDP-Global-500-Climate-Change-Report-2013.pdf. Country emissions are reported in EEA, 9 October 2013, *Trends and projections in Europe 2013*: http://www.eea.europa.eu/publications/trends-and-projections-2013
[15] Reuters, 13 February 2014, *EDF posts strong profits as Europe utilities suffer:* http://www.reuters.com/article/2014/02/13/edf-results-idUSL5N0LI0PC20140213
[16] Euronews, 11 October 2013, *Energy giants urge end to subsidies for 'green' power:* http://www.euronews.com/2013/10/11/energy-giants-urge-end-to-subsidies-for-green-power/
[17] GDF Suez, *10 CEOs push for EU energy policy to change direction - Press conference*: http://www.youtube.com/watch?v=6uDIGht1kIw
[18] Financial Times, 15/16 February 2014, *Utilities seek new ways to make use of their power*: http://www.ft.com/cms/s/0/c5f0949e-9316-11e3-8ea7-00144feab7de.html#slide0
[19] Reuters, 12 February 2014, *Green energy firms clash with big utilities on EU policy*, http://www.reuters.com/article/2014/02/12/eu-green-energy-idUSL5N0LH40220140212
[20] *Business statement for binding renewable energy target in 2030 framework*: http://europebusinessday.eu/statement/
[21] Greenpeace, Commission president Barroso sells out on climate and energy policy: http://www.greenpeace.org/eu-unit/en/News/2014/Commission-president-Barroso-sells-out-on-climate-and-energy-policy/

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