THE DRAGHI REPORT: A MISTAKEN VISION OF THE EU'S ENERGY FUTURE

WHEN CLIMATE PRIORITY DROWNS OUT ENERGY REALITY

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The long-anticipated report on the European Union's competitiveness, authored by Mario Draghi, has finally been released[1]. The unexpected delay in its publication has sparked speculation about potential manipulation of public sentiment leading up to the 9 June European elections. Regrettably, this document, intended to guide the EU's economic future, seems to be a misguided compass, persistently pointing towards an ideological direction, disregarding energy and geopolitical realities.

This comprehensive report, aimed at enhancing the EU's competitiveness, addresses numerous issues that are currently hindering it. Among these are the energy policy decisions made by the EU over the past decade. In this critique, I will limit my focus to the aspects related to this strategy, avoiding topics beyond my professional expertise. Regrettably, the report primarily endorses the continuation of the current energy policy, advocating for increased public funding. If these recommendations are adopted, they risk further weakening the EU's economic vitality and energy security, while only minimally impacting global emissions. It is highly probable that this report will be leveraged by Ursula von der Leyen to broaden the reach of the Green Deal and justify the target of reducing CO_2 emissions by 90% in 2040.

Ironically, considering the observations made by Mario Draghi himself, this agreement should be more aptly named the 'Black Pact'.

Too late!

The delayed release of this report until after the European elections raises valid concerns about democratic transparency. European citizens should have been privy to this information prior to casting their votes. This intentional postponement has unfortunately deprived the public discourse of a crucial examination of our future energy and industrial policies. In the Financial Times of 15 April 2024, the journal announced that Draghi will suggest that the EU should spend 500 billion euro per year to reverse the lack of competitiveness. Had the report been published in time, it would probably have influenced the outcome of the election, given its criticism of the worrying situation created by the European institutions.

The delay in publication is particularly regrettable considering that, despite its deficiencies in energy policy, the Draghi report contains elements that could have sparked a constructive debate. For instance, the report appears to downplay the significance of the Green Deal, a term that is mentioned only once and in a negative context: 'The *European Green Deal was premised on the creation of new green jobs, so its political sustainability could be endangered if decarbonisation leads instead to deindustrialisation in Europe – including industries that can support the green transition*'.

Draghi appears less interested in catchy slogans, a common practice among European institutions, and more genuinely concerned about the potential deindustrialisation that could ensue from the execution of Mrs von der Leyen's flagship initiative. If this report had been released prior to the European elections, the acknowledgement of the challenges that climate policy poses to our competitiveness could have initiated a much-needed reassessment of the EU's energy strategy. Regrettably, this did not occur, and any discontent towards the Green Pact was conveniently ignored to maintain Ursula von der Leyen's leadership of the Commission and continue her climate policy.

Alarming facts and inadequate solutions

Draghi was unequivocal in his assertion: '*For the first time since the Cold War, we genuinely have to worry about our survival*.' This is a sentiment I've mirrored for years, including in my last book,

1 The future of European competitiveness. Part A | A competitiveness strategy for Europe, https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en

which warns of the organised destruction of the EU's competitiveness, the albeit for vastly different reasons. Where the former ECB President identifies a shortfall in investment in green technologies, I perceive an ecological preoccupation that is hampering our industry and jeopardising our energy independence.

The report correctly underscores that '*EU businesses still face electricity prices 2 to 3 times higher than in the US and natural gas prices 4 to 5 times higher*'. However, instead of drawing the appropriate inferences from the shortcomings of Europe's energy policy, Draghi remains unwavering in his pursuit of the enforced green transition.

This disparity in energy prices is far from insignificant. It is the direct aftermath of Europe's energy and climate policy decisions. While the United States has seized the shale gas revolution, significantly reducing its energy costs, the EU has confined itself within a conceptual framework that restricts energy thought – a framework that even Draghi criticises – and has suppressed any potential for exploiting its own resources. The result? A weakened European industry that is steadily losing ground to its international competitors.

Perpetuating the illusion of renewable energies

The report voices concern about the energy price gap and indirectly concedes that this is largely due to ill-conceived climate policies. These policies have precipitated a swift transition to inconsistent renewables while shutting down nuclear power plants. For instance, the substantial subsidies granted to renewable energies in Germany (exceeding €30 billion annually) have indeed augmented the proportion of renewable energies in the electricity mix. However, they have also contributed to maintaining electricity prices that rank among the highest in Europe, thereby impacting the competitiveness of German businesses.

Rather than reversing this trend, Mr Draghi endorses the enhancement of policies promoting renewable energies and the acceleration of their deployment. Yet, this policy has proven unsuccessful. In fact, after 45 years of financing by the European Commission, we still find ourselves obliged to subsidise them, either directly or covertly through consumer bills. The 2009 and 2018 directives were even superseded and bolstered in 2023 to enforce their uneconomical production.

In doing so, the report disregards the fundamental principles of the physics and economics of energy systems. Wind and solar are inherently intermittent and variable energy sources – two terms conspicuously absent from the report – which significantly inflate the cost of electricity due to the necessity to operate the electricity system in a sub-optimal manner. Far from providing 'secure and inexpensive' energy, an electricity system dominated by renewable energies necessitates expensive infrastructure for back-up production, storage, and transmission, all of which contribute to escalating system costs.

The report cites the EU's 'strong potential for innovation' in clean energy technologies as a competitive edge. However, it overlooks the fact that China already dominates the global production of solar panels, wind turbines, and batteries, and is making swift advancements in areas where the EU still maintains a lead, such as electrolysers. This is also thanks to China's control over the extraction and processing of minerals such as lithium, cobalt, nickel, copper, and rare earths. The notion that the EU can outpace China in the renewable energy equipment race through government subsidies is unrealistic.

Even more concerning, the report largely neglects the massive mineral requirements and supply chain challenges associated with a rapid transition to renewables and batteries. It briefly acknowledges the EU's heavy reliance on imports of key raw materials, but fails to propose a concrete strategy to mitigate this vulnerability, aside from vague suggestions of 'resource diplomacy', such as promoting investment in third countries alongside other buyers 'from strategically aligned countries'. The report also hints at the idea that I encountered almost fifty years ago during my studies, and which remains science fiction today: the exploitation of nodules in the seabed… This is certainly not the path to swiftly rejuvenate the EU economy. This interventionist approach risks exacerbating the distortions already prevalent in the energy market.

Neglecting nuclear energy

Although the report refers to nuclear power as a 'clean energy source' on a par with renewables, it does not propose any serious strategy for maintaining, let alone developing, Europe's nuclear fleet. This is a major oversight, given nuclear power's unique ability to provide reliable, cheap and low-carbon baseload electricity. The five times the word 'nuclear' is used, it is systematically associated with and follows 'renewable energies'.

The EU's misguided retreat from nuclear power – illustrated by the political closures of power stations in Germany – has played a major role in the continent's high electricity prices and dependence on Russian gas. Yet instead of correcting this mistake, the report focuses almost exclusively on accelerating the deployment of renewable energies.

A serious competitiveness strategy would seek to rationalise regulations and funding to enable the rapid construction of new nuclear power plants, including advanced design reactors, Generation IV or the SMRs that everyone but Draghi is talking about. It would also create a level playing field between nuclear and renewable energies in the context of decarbonisation policies. Given the worldwide enthusiasm for nuclear energy and the competition from the Americans, Russians, Chinese and Koreans to challenge the only EU manufacturer left on its own territory, it is surprising that the man who seems so concerned about economic recovery does not say a word about it. The fact that the report neglects nuclear power is symptomatic of the irrational bias of certain European decision-makers against this essential technology, and this report suggests that the former Italian Prime Minister is one of them.

The former president of the ECB seems to attach more importance to hydrogen, mentioned six times, than to nuclear power (mentioned five times), probably ignoring the fact that Generation IV high-temperature nuclear power is the only way to envisage non-methane production of this precious chemical molecule[2].

The elephant in the room: oil ignored

The Draghi report exhibits a significant lack of foresight concerning energy matters. The term 'oil' is mentioned only once, as if this resource, which still constitutes a third of the final energy consumption in both the EU and the world, has become insignificant. The report's disregard for the geopolitical issues surrounding oil is a major flaw.

With global oil consumption exceeding 100 million barrels per day, oil remains indispensable for transportation, industry, and numerous other economic activities. This is why oil is strategic, and it is surprising that Draghi, in a report on competitiveness, overlooks this fact. Without oil, transportation would cease. Our roads are constructed with asphalt, our synthetic clothes are derived from petrochemicals, our medicines rely on oil derivatives, and without oil, there would be no electric cables, even though we aspire to electrify everything. Petrochemicals (chemicals and plastics) consume 14% of oil. Is the EU planning to abandon this as well? Even wind turbines and solar panels require oil for their production and transportation. Attempting to construct a

2 Samuel Furfari, The hydrogen illusion, KDP, 2022, https://www.amazon.fr/dp/B08KQ58NYH

competitiveness strategy while disregarding this physical and geopolitical reality is akin to trying to build a house starting with the roof.

This oversight is far from trivial. It mirrors a perilous tendency among European institutions to conflate energy policy with electricity policy. Electricity only accounts for 23% of the EU's final energy consumption. Ignoring the remaining 77% is akin to building a strategy on quicksand. Oil continues to be the lifeblood of our economy.

Moreover, the EU remains heavily reliant on oil imports. In 2022, the EU imported 96% of its crude oil consumption, 83% of its natural gas, and 54% of its coal, amounting to a total of 57% of its energy. This dependence carries significant geopolitical implications that the Draghi report seems to disregard. Our competitiveness is directly tied to our ability to secure these oil supplies amidst an increasingly volatile international context.

Mr Draghi seems to be following the Commission, which, by never talking about it, suggests that a move away from oil will strengthen the EU's energy security and strategic autonomy. In reality, it would merely shift dependence from oil and gas suppliers to China's control over renewable energy supply chains and essential minerals. The 'genuine foreign economic policy' proposed by the report to secure raw materials is no substitute for maintaining a diversified energy mix that includes domestic oil and gas production.

The report's emphasis on 'reducing dependence' overlooks the fact that energy interdependence has historically fostered cooperation and stable relations between producers and consumers (Montesquieu and the gentle trade).

A truly strategic approach to energy security would strive to maintain a diversity of supply and technology options – including gas and oil – rather than placing all of the EU's eggs in the Chinese-controlled 'green' basket.

Too little mention of natural gas

Natural gas receives slightly more attention than oil in this report, but its strategic significance warrants much more substantial consideration. My colleagues in the nuclear energy sector, like myself, often criticise gas for its CO_2 emissions, but they fail to acknowledge that 70% of gas is utilised for thermal purposes, not in power stations. It won't be electricity, even if it's nuclear, that will replace it for a considerable time (more on this later). Furthermore, natural gas is a crucial raw material for the chemical industry, including hydrogen production. The EU's scarcity of domestic gas resources, compared to competitors like the United States, contributes significantly to our continent's escalating energy costs and diminishing competitiveness. As Draghi correctly notes, its high price exerts a substantial burden on the EU economy.

However, instead of proposing a coherent strategy to secure affordable gas supplies through LNG imports and domestic production, the report's suggestions are inadequate. It appears that natural gas is viewed merely as a transitional energy source to be phased out, rather than a cornerstone of our long-term energy security.

LNG imports hit a record high in 2023, accounting for 40% of total EU gas imports. Draghi's lack of focus on this issue is particularly surprising given that LNG is central to current geopolitical matters. The United States has emerged as our primary supplier of LNG, significantly shifting the balance of power in the global energy stage. If we disregard this reality, we risk losing a vital tool for European competitiveness and energy independence.

The EU requires a comprehensive strategy to expand LNG import infrastructure, secure long-term supply contracts with reliable partners such as the US, and eliminate barriers to domestic gas production, including hydraulic fracturing. Without plentiful and affordable natural gas supplies, European industry will continue to face a significant competitive disadvantage. This is why we must have the courage to state that one day, when it is feasible and appropriate, we will need to resume importing gas from the new Russia, which holds one fifth of the world's gas reserves, right at the EU's border. If we desire affordable energy to boost our economy's competitiveness, we will need to import gas from a different Russia. Unfortunately, this report does not delve into that.

The focus on climate policy: a drag on competitiveness

The report's focus on accelerating decarbonisation as a pathway to competitiveness is fundamentally misguided. Mr Draghi contends that 'decarbonisation will facilitate a shift in electricity production towards clean, secure, and inexpensive energy sources'. However, the past decade's experience demonstrates that aggressive decarbonisation policies have resulted in the exact opposite: they have escalated energy costs for European industry and households, a reality that Mario Draghi himself has noted. We have already observed that electricity prices are two to three times higher than in the United States, and natural gas prices are even more detrimental, being four to five times higher.

Ironically, the Draghi report indirectly acknowledges the adverse impact of climate policy on European competitiveness. The former ECB President concedes: '*If Europe cannot become more productive, we will be forced to choose. We will not be able to become, at once, a leader in new technologies, a beacon of climate responsibility and an independent player on the world stage. We will not be able to finance our social model. We will have to scale back some, if not all, of our ambitions.* […] *We have reached the point where, without action, we will have to either compromise our welfare, our environment or our freedom'*

Freedom, a precious treasure wrested from the grip of oppression at an immeasurable cost, must remain the EU's guiding light. This holds true even though some environmentalists have suggested curtailing it to force a reduction in CO_2 emissions, a proposal that is both futile and impractical. It would be morally indefensible to forsake welfare, especially when we know that purchasing power can no longer guarantee a good quality of life, or even healthcare, for a significant portion of Europeans.

Draghi's third option, 'to compromise our environment', is unfortunately poorly phrased. To preserve our well-being, we obviously need to avoid pollution and therefore protect the environment. Draghi is referring to climate policy, which he alludes to several times in his report in a subtly critical way. Elsewhere, he explicitly states that we cannot become 'a beacon of climate responsibility'. Make no mistake, Draghi is aware that the rest of the world will continue to significantly increase emissions to enhance their competitiveness through abundant and cheap energy, i.e. fossil fuels.

This belated and indirect admission only confirms what I have been criticising for years: the EU's unilateral race towards decarbonisation and European climate policy are synonymous with significant economic decline. The obsession with 'net zero' has led to irrational decisions, such as the premature closure of nuclear power stations or the prohibition of internal combustion engines in 2035, without considering technological and economic realities.

The cost of this policy amounts to hundreds of billions of euros per year. According to a study by the European Central Bank (2021), the investment required to achieve the EU's climate objectives would total €330 billion per year until 2030. Mario Draghi goes even further, advocating spending €700–800 billion per year on his overall strategy. This is a regulatory burden that our already weakened industry cannot shoulder in the face of international competition, and neither can our citizens, who are already heavily taxed to the point of jeopardising their purchasing power and access to healthcare.

Consider the example of the European car industry, the pride of our economy. The mandate of transition to electric vehicles by 2035 represents a monumental challenge. Not only does it necessitate massive investment in new production lines, but it also risks obliterating hundreds of thousands of jobs in the combustion engine sector. Meanwhile, our Chinese competitors, who are not burdened by such regulatory constraints, are rapidly gaining market share, as this report highlights. '*Chinese carmakers' market share for electric vehicles in the EU has risen from 5% in 2015 to almost 15% in 2023, while European carmakers' share of the European EV market has fallen from 80% to 60%*.' Italy – a country that Mario Draghi knows perfectly well – has just called for a review of this unrealistic policy.

European climate policy is characterised by a conspicuous lack of realism. It is predicated on hopeful technological assumptions, such as large-scale electricity storage or the production of green hydrogen in substantial quantities, which are yet to be validated. This is akin to constructing a house of cards on shaky foundations. Moreover, this policy overlooks geopolitical realities. As the EU endeavours to lessen its reliance on hydrocarbons, it is fostering new dependencies that are equally problematic. The quest for rare metals, essential for batteries and renewable energies, is making us reliant on countries like China, which controls a significant share of these strategic resources. We are merely substituting one dependency for another, with no tangible benefit to our sovereignty.

This critique underscores the EU's heavy reliance on external sources for materials crucial to the energy transition. It advocates for a more strategic and coordinated approach to secure supplies and mitigate vulnerabilities in this sector.

The report's proposed 'joint plan for decarbonisation and competitiveness' is a contradiction in terms: aggressive decarbonisation inherently compromises industrial competitiveness by escalating energy costs and reducing reliability. This plan is suggested because it acknowledges the challenge of 'asymmetric decarbonisation', where EU industries grapple with higher investment costs and carbon prices than their international competitors. However, the solutions the banker offers, such as increased subsidies and a border carbon adjustment mechanism, are inadequate to counteract the fundamental cost disadvantages.

The report asserts that '*in the medium term, decarbonisation will facilitate a shift towards clean, safe, and low-cost energy sources*', a statement continuously reiterated using the Brussels-Strasbourg method.

A more prudent approach would be to temper the rate of emission reductions, allowing technological innovation to mature and costs to decrease. The report's call to uphold 2030 climate targets while accelerating action could lead to further deindustrialisation, with production shifting to regions where energy costs and regulatory burdens are lower.

Mr Draghi and the EU's policy-makers must prioritise between a swift reduction in emissions and industrial competitiveness. The notion that the EU can simultaneously achieve both through substantial subsidies and industrial policy is an economic fallacy. The competitiveness of energy-intensive industries should be prioritised over the attainment of arbitrary short-term emissions targets.

Disregarding heat and flames

The European Union's energy policy, which strongly advocates for swift decarbonisation, has not consistently provided the necessary support for energy-intensive industries to adapt. This discord has led to the relocation of certain industries, such as steel and chemicals, to regions with less stringent regulations. This unfortunate oversight stems from a lack of understanding of the fundamental principle of energy. Politicians, including Mario Draghi, often focus on electricity, neglecting the rest either due to ignorance or because they realise they have minimal influence over the most significant final energy: heat. Some are aware that there is no simple, popular solution to propose.

Electricity accounts for only 22% of final energy consumption in the EU, transport for 27%, and heat for around 50%. By focusing on nuclear power and wind turbines or photovoltaic solar panels, politicians are addressing only a fifth of the energy issue and neglecting the most crucial final energy: heat, thermal energy, or flames. Almost all industries will continue to rely on thermal energy for their processes: iron and steel, metallurgy, cement, glass, brick and ceramics, petrochemicals, recycling, breweries, and more. The same holds true for many services that require large quantities of heat, such as hospitals or swimming pools. However, the Draghi report does not mention this need, merely alluding to the needs of industry without specifying that electricity from wind turbines cannot meet them. Furthermore, the chemical and petrochemical industries are not mentioned. How can we maintain competitiveness if, in such vital sectors, we don't provide a single analysis, let alone solutions for thermal use?

In the short to medium term, it is unlikely that the gas used to power these industries and services will be replaced by renewable energies. Therefore, gas will continue to play a vital role in heating applications for the foreseeable future. The illusion of the heat pump for all does not even warrant a mention, and indeed the report does well not to mention it. Therefore, to keep Europeans warm, we will need to secure the gas supply.

The EU must effectively manage its security of gas supply. It should develop a farsighted geopolitical energy policy to ensure that, in 20 years' time and beyond, we will have sufficient quantities of gas. To achieve this, we need to do the opposite of Germany, which has been blinded by Russian gas. The strategy developed by the Prodi Commission in 2000 to ensure the security of our energy supply was simple, yet extremely insightful: diversify the countries of supply as well as the routes and means of transport[3]. This should be the priority of the next Commission and the new Parliament.

It is unclear where the recommendation came from to extend the acceleration measures and emergency regulations to heat networks, a technology from the 1950s that was primarily used in communist countries and that no one considers viable anymore. This is due to the lack of flexibility and the enormous cost of opening up streets to place tubes that transport heat. If it were to be done, it would only be with coal or gas, so it wouldn't meet the objective of promoting renewable energies. The examples of wood-fired heating systems that exist in Scandinavian countries are niche solutions that can't be replicated elsewhere.

The myth of rapid energy transition

The Draghi report, akin to numerous EU documents, continues to propagate the notion of a swift and effortless transition to a 100% renewable energy system. This perspective overlooks the basic principles of physics and economics. Energy transitions are intricate and prolonged processes that span across multiple decades, a fact I have illustrated in a collaborative article with Professor Ernest Mund[4].

Historical evidence suggests that the shift from wood to coal, and subsequently from coal to oil, spanned over a century. In each instance, the new energy source supplemented the existing ones

3 European Commission , 'Towards a European strategy for the security of energy supply', 29 November 2000, COM (2000) 769 final.

4 Furfari, S., Mund, E. Is the European green deal achievable? *Eur. Phys. J. Plus* 136, 1101 (2021). https://doi.org/10.1140/epjp/s13360-021-02075-7

rather than completely replacing them. Thus, the expectation of accomplishing an even more drastic transition within a few decades is overly optimistic.

Mr Draghi, along with the Brussels-Strasbourg establishment, appears to be under the impression that a swift energy transition can be enforced through targets and regulations, while disregarding the physical and economic realities. However, the immense resource requirements, the implications on land use, and the challenges of integrating systems to power modern industrial economies with diffuse and intermittent energy sources cannot be overlooked. By pursuing this path more rapidly than the maturation of technologies and supply chains, the EU risks undermining its own competitiveness.

The substantial costs associated with this transition, coupled with the intense competition from countries less bound by ambitious climate targets, present a significant challenge that the report does not sufficiently address. This unrealistic vision results in counterproductive policies. By attempting to hasten the pace of transition, we risk destabilising our energy system, escalating costs for consumers, and weakening our industry. The situation in Germany, with its EnergieWende (which Draghi prudently omits), serves as a prime example of these errors: despite investments amounting to hundreds of billions of euros, the country remains heavily reliant on coal and gas, with electricity prices among the highest in the EU.

The burden of legislative inflation

Mario Draghi's report acknowledges the fact that those within the European institutions are quietly aware of the EU's legislative activity has consistently and significantly expanded since the Maastricht Treaty was adopted, leading to a proliferation of regulations. This growth is partially due to the EU's response to emerging challenges and its aspiration to harmonise standards and policies among Member States. However, in my view – a view I have been voicing for years – it is a consequence of the legislative power bestowed upon the European Parliament. Prior to the Treaty, the assembly, as it was then known, only had decision-making authority over the budget. Since then, its co-legislative role with the Council of the Union has inspired MEPs to propose legislation. They require 'grist for the mill' to justify their presence in Brussels-Strasbourg, and are persistently requesting legislative proposals from the European Commission through resolutions. The Commission obliges, resulting in regulatory inflation. The sheer volume of legislation has become a burden for businesses and national administrations.

The report juxtaposes the EU's legislative process with that of the US, noting that the EU has enacted approximately 13,000 acts since 2019, while the US has passed around 3,500 laws and resolutions at the federal level. This comparison underscores the perception of legislative inflation in the EU. The report correctly highlights that small and medium-sized enterprises (SMEs) in the EU are particularly affected by this legislative inflation. It reveals that nearly 80% of the items on the Commission's work programme pertain to SMEs, but only about half of the impact assessments that the European Commission must prepare before adopting legislative proposals effectively measure the impact of these proposals on SMEs. This suggests that SMEs bear an undue compliance burden, intensifying the effects of legislative inflation. During my recent vacation, I encountered an individual working in a German family business with 60,000 employees that manufactures essential very small industrial components. This person's role is to advise the boss on whether it would be more beneficial to pay a fine rather than comply with certain complex European regulations on sustainable development.

To alleviate the burden of bureaucracy, the report proposes that the Commission should exercise greater 'restraint' in policy-making and recommends appointing a new Vice-President of the Commission, responsible for simplification, to spearhead efforts to streamline the acquis. It also advocates for the adoption of a unified methodology for quantifying the implications and costs of new regulatory proposals. This is a commendable approach to eliminating unnecessary regulation, but it is not the first time such proposals have been made. I recall that in the early 2000s, the Commission pledged to review all legislation that seemed outdated, but since then, more has been added.

The report also endorses a stricter application of the principle of subsidiarity, a concept dear to Jacques Delors, which determines the optimal level of decision-making, and suggests focusing on areas where the EU provides the most value. However, other sections of the report advocate collective decision-making (including gas purchasing and the imposition of equal targets for all Member States).

These proposals are highly desirable, but I struggle to see how we can attain this much-needed goal while simultaneously wishing to continue imposing arbitrarily decided binding targets on the business world.

The return of old Keynesian recipes

Confronted with the competitiveness challenges that concern Draghi, he is resorting to conventional methods of extensive state intervention in green technologies, overlooking market indicators and economic efficiency. This approach neglects the reality that innovation and competitiveness are products of private enterprise, not bureaucratic schemes.

Draghi's report advocates for a substantial surge in public and private investment to realise his vision of swift decarbonisation and industrial transformation. He approximates the investment required to meet the goals outlined in his report to be between 4.4% and 4.7% of EU GDP annually, an astonishing €750–800 billion per year for all the policies he encompasses (not just energy).

This degree of capital redistribution, propelled by government policy rather than market dynamics, poses a risk of severe economic distortions and misguided investment. The report concedes that 'the private sector will necessitate public backing to finance the plan', implying that substantial taxpayer subsidies will be needed. It endorses 'tax incentives to stimulate private investment' along with direct state investment. This strategy reiterates the unsuccessful model of top-down industrial policy, rather than empowering market forces and private sector innovation.

A more efficient path to competitiveness would be to lower the EU's elevated energy costs and regulatory burdens, while allowing markets to guide investment towards the technologies and business models they deem most economically viable. The report purports to 'utilise all available solutions through a technology-neutral approach', but its policy recommendations and the track record of European institutions contradict this assertion.

Instead of extensive public expenditure and subsidies, policy-makers should concentrate on establishing a stable and minimalist regulatory environment, eliminating obstacles to innovation and creating a level playing field for various energy technologies. The report's suggestion to 'separate the remuneration of renewables and nuclear from fossil energy production' is particularly concerning, as it would skew market price signals and necessitate perpetual subsidies.

Mr Draghi's vision would entail an even larger state involvement in capital allocation and industrial planning, which is exactly the wrong approach to enhancing the EU's lagging productivity and competitiveness. Despite its declared goal of enhancing EU competitiveness, the energy policy recommendations in the Draghi report risk undermining the competitiveness of European industry, particularly in energy-intensive sectors. The report acknowledges that production in energy-intensive industries has already declined by 10–15% since 2021 due to high energy costs. However, it advocates for intensifying efforts to implement the policies causing these cost increases.

This interventionist strategy risks intensifying existing distortions in the energy market. The substantial subsidies awarded to renewable energies have already destabilised the European electricity grid, paradoxically increasing CO_2 emissions due to their intermittency. Persisting on this course is to doom European industry to a double penalty: high energy costs and compromised reliability.

However, history has demonstrated the limitations of state intervention in the energy sector. The notable failures of projects like Desertec, which was intended to supply the EU with solar electricity from the Sahara, or the 2009 target of 10% biofuels in transport consumption by 2020, should serve as a warning. These projects, described as 'ambitious but realistic', supported by billions of euros of public money, have only resulted in disappointment and waste. Yet, Draghi proposes to raise the stakes. The banker suggests establishing a 'European sovereignty fund' to finance the green transition. This overlooks the fact that true sovereignty is built on a solid economic foundation, not on subsidies. The EU needs abundant, affordable energy to restore its competitiveness, not another redistribution mechanism that will only increase public debt.

BRICS? Never heard of it!

The report notably omits any mention of the BRICS group of emerging economies – Brazil, Russia, India, China, and South Africa – which expanded in January 2024 to include three Arab nations (Saudi Arabia, UAE, and Egypt), the Islamic Republic of Iran, and Ethiopia. This absence is particularly conspicuous given the increasing economic and geopolitical influence of the BRICS nations, and their contrasting growth strategies compared to the EU.

They possess 40% of the world's oil reserves, 50% of the world's gas reserves, 40% of the world's coal reserves, and consume 72% of the world's coal. Consequently, the BRICS nations contribute to 50.3% of global CO_2 emissions, while the OECD's share is only 33.7%. This stark reality, which underscores the limited impact the EU can have, especially when it only contributes to 7% of global CO_2 emissions, is not addressed by Draghi. It's worth noting that the report also largely overlooks nuclear power, despite the fact that Ethiopia is the only BRICS nation that does not have or has not yet initiated a nuclear program.

While Draghi's report emphasises innovation, decarbonisation, and strategic autonomy for the EU, the BRICS nations have consistently prioritised rapid economic growth and sustained development. This growth-centric model has facilitated countries like China and India to achieve impressive GDP growth over the past few decades, thereby lifting millions out of poverty.

The BRICS strategy underscores massive infrastructure investment, export-led growth, and often a state-led industrial policy. Environmental considerations and emissions reductions have typically been secondary, and perhaps even just an illusion to induce the EU to run alone towards decarbonisation leading to loss of competitiveness. This is in stark contrast to Draghi and von der Leyen's vision for the EU, which prioritises decarbonisation and sustainability.

Furthermore, the BRICS nations have placed less emphasis on technological sovereignty, instead leveraging their large domestic markets and lower costs to attract foreign investment and technology transfers. This diverges from Draghi's focus on reducing EU dependence and stimulating domestic innovation.

By neglecting to address the BRICS model, Draghi misses a chance to compare strategies. The EU's emphasis on sustainability may be causing it to lag in terms of sheer economic growth. The report could have explored how to balance growth imperatives with other priorities.

Moreover, as the BRICS nations expand their collaboration and potentially challenge the Western economic order, a competitiveness strategy for the EU should consider this evolving geopolitical landscape. The establishment of the group's new development bank and discussions on de-dollarisation present long-term risks to the EU's economic influence that warrant consideration.

The urgent need for a democratic debate on energy

Despite its shortcomings, the Draghi report deserves recognition for illuminating the contradictions in European energy policy. As one authority criticises the impact of energy prices on growth, it is now incumbent upon European institutions to instigate a comprehensive democratic debate on these pivotal future issues, moving beyond political correctness. A more diverse European Parliament could potentially foster such a debate, rather than adhering to the political norm, as has been the trend for the past decade.

This debate should be grounded in facts, not slogans, and should engage not only experts and politicians, but also citizens and industry. The latter, if they muster the courage to voice their genuine opinions publicly, are at the forefront of the repercussions of these decisions. All energy options must be scrutinised without prejudice, including those currently deemed politically incorrect, such as nuclear or hydrocarbons. This is an essential prerequisite for an energy renaissance in the EU.

While the Draghi report makes numerous relevant observations, it appears to be constrained within an ideological framework that restricts energy discourse in Brussels, Strasbourg, and seemingly Frankfurt. The report persists in advocating a narrow view of competitiveness that centres on unattainable climate targets, overlooking energy security and economic prosperity. It also seems to isolate the EU from the prosperity race led by the BRICS and other forward-thinking nations, including some OECD countries.

The EU requires a sensible energy policy, based on a balanced mix that incorporates nuclear, natural gas, and mature, unsubsidised renewables. It is crucial that it ceases to vilify hydrocarbons and acknowledges their vital role in providing heat for decades to come. It's time to shift away from an excessive climate focus and return to a pragmatic approach to energy. Our competitiveness, our independence, and ultimately, our freedom hinges on it.

The EU possesses the intellectual, technological, and industrial resources to tackle the energy challenge of the 21st century. However, to do so, it must rekindle the spirit of innovation and pragmatism that once made it great. It must cease to feel overly guilty in the name of climate responsibility, and reignite the ambition of a true energy renaissance.

This renaissance implies a return to the fundamentals of the EU's creation: abundant, reliable, and affordable energy as the bedrock of our prosperity. It means reinstating science and technology at the core of our choices, rather than ideology and emotion. It means restoring a balance between legitimate environmental concerns and the imperatives of economic and social development.

The EU's energy future will not be built on the unrealistic green projects propagated by the Draghi report, but on a realistic and ambitious vision of our place in the world. It's time for our leaders, starting with Mario Draghi, to recognise this before it's too late.

The need for a return to energy pragmatism

This report, while not fully addressing the EU's intricate energy challenges, underscores hurdles that cannot be overcome without a significant paradigm shift. It is high time for the EU to revert to a pragmatic approach towards energy policy. The Draghi report's handling of energy issues exhibits a concerning disconnect from the chemical, physical, economic, and geopolitical realities. Its vision of swift decarbonisation through renewables and electrification as the path to competitiveness disregards costs. Its endorsement of an annual expenditure between €750 and €800 billion reflects a belief in state interventionism, which is hardly surprising.

A more cautious approach to enhancing the EU's competitiveness would involve focusing on securing diverse and affordable energy supplies without any predetermined exclusions – including fossil fuels, nuclear, and renewables. This would allow market forces, rather than centralised planning, to guide the energy transition at a sustainable pace. The distinction between communist planning and Brussels-Strasbourg planning is difficult to discern. The priority should be reducing energy costs and ensuring supply security rather than meeting arbitrary short-term emissions targets.

Mario Draghi correctly identifies the failure of industrial policy – particularly energy policy – but he overlooks the fact that the EU requires a fundamental reset of its climate and energy policies to regain its industrial competitiveness. To suggest that we have to choose between freedom, welfare and climate policy without acknowledging that it is the latter that has led to the unfortunate conclusion he has drawn is regrettable.

Significantly increasing failed state aid, as recommended in the Draghi report, is a recipe for continued economic stagnation and deindustrialisation.

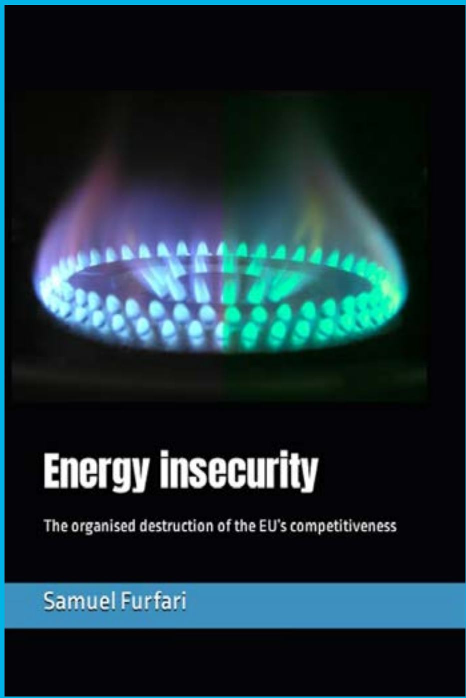
Europe's new leaders – the Commission and the European Parliament – should prioritise pragmatism and energy diversification over rigid environmental policies if they genuinely aim to enhance the continent's global competitiveness.

- Oil and Gas: It is crucial to acknowledge that oil and gas cannot be overlooked. Regardless of our preferences, oil and gas will remain pillars of our energy mix for decades to come. Draghi seems to disregard oil, while recognising a certain role for natural gas. Instead of stigmatising them, we should aim to produce them within the EU, optimise their use, and develop technologies to mitigate their environmental impact.
- Nuclear Energy: The same applies to nuclear energy, which is largely absent from this report and is the BRICS's strategy for dominating the EU.
- Renewable Energy: Wind and solar power have a place in our energy mix, but their development should be guided by economic rationality rather than ideology or politically dictated objectives. This implies ending massive subsidies, deploying them where they are most effective, and abandoning targets that are unrealistic rather than 'ambitious and realistic'.
- Energy Efficiency: Draghi does not mention energy efficiency or energy saving, which is appropriate, as these are self-evident prerequisites for competitiveness. Without rational energy use, competitiveness is unattainable. While this is a potent tool for improving our competitiveness, it is ultimately the responsibility of consumers, not politicians. Any political measures aimed at enforcing energy savings merely impose bureaucratic constraints that penalise consumers, create inefficient work for national and supranational administrations, and likely cost more than they yield.
- Innovation: The EU must reclaim its leadership in energy innovation. This necessitates increased support for basic and applied research, not the funding of politically determined projects. The themes of research projects funded by the European Commission should no longer be dictated by politics. It's no wonder we are trailing behind the United States, as the Draghi report quickly points out. If the EU allows researchers freedom, it can regain its position as a leader in energy innovation. This will require increased support for basic and applied research, operational funds, and grants for researchers, not project funding.

Our competitiveness, our independence, and ultimately, our freedom hinge on this. The green ideology poses a threat to our values, our prosperity, and even our freedom, as Mario Draghi himself states. Regrettably, this report merely confirms the perilous trend that I denounced in my last book, which is subtitled '*the organised destruction of the EU's competitiveness*'.

We urgently need to return to the credo of the EU's founding fathers in 1955: the EU's future is contingent on abundant and affordable energy.

Samuel Furfari



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