

THE EU'S PATH TO 2030
DEFINING PRIORITIES FOR A
STRONGER UNION

**BETWEEN A ROCK AND HARD PLACE:
ENERGY AND CARBON
IN THE NEW POLITICAL CYCLE**

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SUMMARY

At first glance, the EU's 2024-29 policy cycle may appear focused on the technical implementation of the vast amount of climate legislation agreed under the Fit for 55 package. Yet beneath these technicalities lie important strategic choices. Chief among them is how to boost economic competitiveness while safeguarding climate credibility.

Plans for a Clean Industrial Deal are a logical spin-off of the European Green Deal. But a new deal to promote 'clean growth' faces a far less optimistic geoeconomic outlook. Now, the EU must ensure its targets are realistic and finally make a business case for the transition.

It will implicitly have to address the critical question of carbon pricing now and beyond 2030. The price must propel the development of low-carbon technologies without detrimental macroeconomic effects. Also, as emission allowances tighten, policymakers must decide how to manage residual and (still) unabated emissions.

Energy will remain a key factor in the clean transition, with reducing high energy prices likely to be a political promise of Ursula von der Leyen's second European Commission. It must be fulfilled alongside ambitious goals to decarbonise the energy system, upscale low-carbon generation and improve system flexibility. Making this transformation cost-effectively calls for a fresh perspective on total system costs, significant investment and overall coordination.

The clean transition will inevitably reshape the EU economy. Rising carbon costs and persistently high energy prices are already forcing some industries to relocate, downsize or restructure. Policies for green industrialisation need cold-blooded assessment, as decisions will have far-reaching implications for the future.



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For a deeper analysis of the topics discussed in this contribution, see the CEPS In-Depth Analysis report [Green and Envable: How to deliver net zero and a more competitive EU](#), published in June 2024.

This CEPS contribution is part of the special series 'The EU's path to 2030', where each of our research units were invited to provide insights on key policy files, offering guidance and recommendations for policymakers throughout the course of the new mandate up until 2030. The opinions expressed are those of the authors in their personal capacity and do not reflect the views of any affiliated institutions.

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INTRODUCTION

The agenda for the 2024-29 cycle converges on a central challenge – addressing the EU’s economic hurdles. This will be at the heart of the EU’s strategy as reflected in both the [political guidelines](#) of returning President Ursula von der Leyen for the next Commission and the [Council’s strategic agenda](#). Barring any significant shift in consensus, this strategy will rest on a broad bet on ‘green growth’ – or ‘clean growth’ – as framed by the [portfolios](#) for the von der Leyen II Commission.

At its core, decarbonisation has been viewed as an economic opportunity aligned with the Paris Agreement. The European Green Deal was built on the premise that technological innovation would enable the EU to seize first-mover advantages in emerging clean industries while simultaneously reducing greenhouse gas emissions. This optimistic framing has helped the green agenda not only to weather the Covid-induced recession and survive the energy crisis of 2021-22 but also to increase its ambitions.

However, the assumptions underpinning the European Green Deal in 2019 – reliable supply chains and relatively stable multilateral trade, steady imports of fossil fuels until their phased exit and Europe’s presumed climate leadership – have since been shattered. The much-discussed [global ‘cleantech race’](#) has given rise to anxieties, exacerbated by the US Inflation Reduction Act of 2022. The EU adopted the [Green Deal Industrial Plan](#) and its supporting legislation in 2023, including the [Net-Zero Industry Act](#). By the end of the 2019-24 political cycle, this has escalated into a high-stakes effort to ensure that Europe remains at the forefront of industries that will shape the global economy for decades to come.

The recent [Draghi report](#) doesn’t shy away from identifying the underlying obstacles to achieving decarbonisation while remaining competitive – supply chain vulnerabilities, widening innovation gaps, tightened carbon regulation and high energy prices. The risk of deindustrialisation in Europe, marked by a shift in its manufacturing capacities, has been a chronic concern but has grown more troubling since 2022. From the struggles of the [automotive industry](#) to delays in [battery factory](#) projects and the pause in [Intel’s](#) large chip plants in Germany and Poland, Europe’s manufacturing sector is at a tipping point. Doubts are mounting about its ability not only to produce clean technologies – but also to manufacture at all – at competitive prices.

Energy prices, which remain higher than those in the US and China, and increasingly stringent carbon pricing because of recent reforms to the [Emissions Trading System](#) (ETS), expose the EU’s economy to a critical test of its resilience amid global competitors. That’s why energy and carbon costs are set to become the pivotal factors around which –

explicitly or implicitly – the delivery of the net zero pledge, within the worrying economic context, will be structured.

Unsurprisingly, in response, the EU appears poised to adopt a ‘put your own oxygen mask on first’ approach for the 2024-29 cycle. Safeguarding Europe’s economic prosperity is taking precedence, with decarbonisation increasingly filtered through the lenses of competitiveness and economic security.

Does this signal a dilution of the European Green Deal’s ambitions? For now, the answer seems to be ‘no’. The green transition, reframed as ‘clean’ in appointments for the new Commission, is still viewed as an opportunity for economic modernisation. Success could trigger an innovation shock that revitalises Europe’s economy, enabling it to ride out or even to leapfrog the potential [short-term negative economic impacts](#) on its path to net zero. Conversely, failure could submerge the continent into deeper economic malaise.

This is not an easy play. On the one hand, the EU must leverage the rewards of decarbonisation to strengthen its competitive edge. This involves a big bet on an ability to foster technological innovation as a catalyst for growth, thus supporting a justification of leading by example. On the other hand, it must absorb the immediate costs of decarbonisation, along the trajectory of gradually tightened carbon prices aimed at incentivising emission reductions.

This contribution to the special CEPS series on the ‘The EU’s Path to 2030’ gives initial reflections on the key issues confronting the next cycle in this context. It also provides some initial ‘broad stroke’ recommendations on how EU policymakers can make a solid start in tackling them.

A CLEAN INDUSTRIAL DEAL: SOME 'BACK-OF-THE-ENVELOPE' THOUGHTS

- The priority for the 2024-29 cycle should be the implementation of the Fit for 55 package. Particular attention needs to be paid to enhancing vertical and horizontal coherence across key portfolios and ensuring adherence to better regulation principles. This will help provide clarity and predictability for investment decisions, also beyond 2030, and will pave the way towards the 2040 target under the European Climate Law.
- Sustaining the EU's economic prosperity will require coordinated action across multiple policies beyond energy and climate portfolios. Careful balancing will be needed to avoid unintended consequences while creating space for breakthrough developments.

A new Clean Industrial Deal, promised by von der Leyen within the first 100 days of her second term, is expected to become a logical evolution of the European Green Deal and a spin-off in response to growing concerns. It's expected to provide concrete tools to fast-track cleantech development and further shape the EU's clean transition through 2030. The hope is that this will also bring much-needed clarity and enhance the predictability of energy and climate policies.

The Clean Industrial Deal appears set to amalgamate and coordinate efforts across a broad spectrum of portfolios, reflecting the interconnected nature of the green transition and clean agenda with other major policy areas. This is underscored by the Commission's for von der Leyen's second term, where the decarbonisation, competition and just transition portfolios will be integrated under the supervision of [an Executive Vice-President for a Clean, Just and Competitive Transition](#).

As always, the devil is in the detail – and the stakes are far higher than mere debates over rebranding the Green Deal. The immediate priority will be implementation of the substantial energy and climate legislation negotiated under Fit for 55.

At the same time, a central concern of the new cycle – to maintain the EU's economic prosperity – will require coordinated actions across multiple policies, likely accompanied by measures that are bolder and more pragmatic. This may also result in the reshuffling of various interrelated policies beyond energy and climate portfolios – a process that will require a delicate balance to avoid opening a Pandora's box, while simultaneously [paving the way for breakthrough developments](#).

IMPLEMENTATION THAT NEEDS TO BE DONE RIGHT

The 2024-29 political cycle is widely anticipated to centre on implementation, with a pronounced focus on transposing the Fit for 55 package into national legislation. A comprehensive review of target alignment and feasibility is also overdue.

Sectoral and technology-specific targets have proliferated recently. While targets provide essential direction, an excess of often incoherent objectives risks creating the false impression that target-setting alone can deliver sufficient [progress](#). In some cases, this overabundance (facilitated by groupthink) has clouded priorities, hindered real advancements and distorted expectations of what can *realistically* be achieved.

The critical task for this cycle is to ensure that targets are clearly channelled into implementable actions that keep the 2030 targets on track – in other words, targets shouldn't become policies in themselves. These targets should also be adaptive. This means that the Commission should be ready to propose a course correction if external shocks or technological development suggest that (sub-sector) specific targets cannot be achieved or can be achieved more cost-effectively through other means – all while staying on track for achieving the net zero pledge by 2050.

Only after identifying the necessary steps to be completed by 2030 can a clearer picture emerge of the 2040 target. The importance of well-balanced targets for 2040 cannot be overstated, as they will ensure predictability and certainty for the stakeholders involved.

HARD CHOICES ABOUT HOW THE EU'S MODUS OPERANDI WILL IMPACT ENERGY AND CLIMATE POLICIES

Addressing the issues ahead will require bold, cross-sectoral decisions spanning multiple domains. These range from research, development and innovation, to trade, industrial policies, fiscal regulation, competition regulation and even (climate and energy) diplomacy through heavyweight initiatives like the Global Gateway. Strategic choices made in these areas will shape the trajectory of future energy and climate policies.

Yet every decision will almost certainly spark intense debate, as stakeholders weigh competing interests and approaches. Both the [Letta](#) and Draghi reports accurately diagnose the current state of affairs and its problems; while their proposed remedies may resonate with some, they may raise eyebrows among others.

Since the pandemic, the EU has taken unconventional measures to respond to crises. For example, the [Temporary Crisis and Transition Framework](#) relaxed state aid rules and [NextGenerationEU](#) introduced joint borrowing on an impressive scale. Still, the next set of challenges may require even more far-reaching actions, which may substantially

change the EU's established *modus operandi*. Any decision about the relationship, if any, between trade, industrial and competition policies will be critical, though these decisions are unlikely to be straightforward or warmly welcomed by all.

To drive the clean transition, enhanced cooperation and coordination between Member States is essential. But the depth of coordination is what's truly at stake. Does greater coordination necessitate greater centralisation at the EU level?

The Draghi report asserts that it does, but many would dispute how far the EU's economic woes stem from a lack of centralisation or the degree to which further *supranationalism* can genuinely address these issues. The balance struck in these decisions will have profound implications for the EU's entire path towards net zero, among others shaping the future architecture for climate governance.

As the clean transition demands unprecedented financial resources, the debate will also hinge on the scope of (increased) public funding. With the temporary funds from NextGenerationEU winding down and budgets shrinking at both the EU and Member State levels, discussions around increasing EU-level funding will take centre stage.

Whether this funding will materialise through common debt – as advocated in the Draghi report and immediately refuted by many, including German finance minister [Christian Lindner](#) – or through increased EU-level coordination of national state aid remains a big question. A further question is whether the EU can effectively mobilise the necessary financial resources or if Member States will insist on retaining control over these critical funding decisions. Another important consideration is the direction of these public finances, which raises the debated trade-off between indiscriminately subsidising industries and addressing targeted market failures.

Industrial policy is also increasingly central to shaping the EU's clean transition, raising questions about the virtues of the principle of technology neutrality. The Draghi report highlights potential vertical policies, which may provoke questions about exactly which industries should receive support. This has already generated significant political friction and the selection of strategic technologies has proven highly controversial, particularly during the interinstitutional negotiations surrounding the Net Zero Industry Act.

THE BUSINESS CASE FOR THE TRANSITION REQUIRES BOLD DECISIONS DURING DIFFICULT TIMES

Well-functioning policies, not just ambitious targets, are crucial. They must provide economically viable cases for clean technologies across sectors, each at different stages of technological readiness. Even more essential is that these policies offer greater predictability for businesses.

Yet the business case for the transition remains unclear as long as private capital doesn't sufficiently flow into clean technologies or, moreover, doesn't always support upscaling their deployment. Instead, investors face multiple risks – either perceived or real – that complicate business decisions in line with the net zero pledge. These range from redemption and innovation risks to uncertainty over whether products will be in demand to broader concerns like volatile, high prices for energy and rising carbon ones.

Also, streamlining and simplifying overlapping certification, approval and reporting procedures is crucial for easing regulatory complexity. The [growing calls for 'better regulation'](#) reflect the mounting frustration – particularly from business – with these hurdles.

In setting out the business case, where once energy and climate policies were important but primarily sector-specific, they now carry far-reaching implications across the economy. High energy prices are widely acknowledged as a drag on EU competitiveness. As later discussed in this contribution, much depends on how to reduce costs while accelerating the rollout of renewables and phasing out fossil fuels, all while maintaining the flexibility and reliability of the energy system.

A significant discussion will also need to happen concerning the impacts of carbon pricing, not only in terms of stimulating low-carbon investment across various sectors and technologies but also its overall macroeconomic impacts on the economy.

CARBON PRICING AS A PRECONDITION FOR LOW-CARBON INVESTMENT

- Carbon pricing, accompanied by protection against carbon leakage and compensation for low-income households, should remain a prerequisite, as it provides a long-term price signal to improve the low-carbon investment case. The impact of the carbon price on macroeconomic performance must be carefully assessed.
- As the tightening of emission allowances accelerates, legislators should discuss the future framework for carbon pricing beyond 2030. This should include evaluating the pros and cons of various sources of supply and liquidity for the EU ETS. The Commission should provide guidance as soon as possible on how and which carbon removals can contribute to achieving net zero.

Carbon pricing, steadily expanding to cover an increasing number of sectors, is widely viewed as central to establishing a viable business case for the clean transition. But it's far from that straightforward. The new political cycle will witness renewed debate on the carbon price's capacity to provide a long-term price signal that drives low-carbon investment across the EU economy, while also avoiding excessively harsh impacts on overall economic performance. The new political cycle will also be shaped by discussions on how to achieve deep emission reductions and what role carbon removals (and which ones) will need to play.

CARBON PRICE AS A LONG-TERM SIGNAL FOR LOW-CARBON INVESTMENT

The legislative trajectory of the outgoing cycle has anticipated tighter carbon pricing under the EU ETS to incentivise adoption of low-carbon technologies in the covered sectors.

For investment decisions, what matters most is the stability and level of the carbon price. A certain carbon price threshold is essential for enabling each abatement technology, and as marginal abatement costs increase, so does the threshold.

After nearly a decade of low levels, and following a series of reforms starting with the Market Stability Reserve introduced in 2017, EU ETS prices have shown a gradual and consistent [upward trend](#). They peaked at EUR 100/tonne in 2023 and have fluctuated since then, currently standing at around EUR 60-70/tonne. Even so, this may not be enough for many transformative low-carbon technologies, whose abatement costs still exceed EUR 100/tonne.

Simultaneously, while a higher carbon price is expected to stimulate technological innovation in low-carbon solutions, it also contributes to inflationary pressures, posing immediate burdens for businesses and the economy at large. A critical task for the 2024-29 cycle will be to assess the broader economic impacts of a tightened EU ETS, as well as the first effects of the newly created [ETS2 for road transportation, buildings and additional sectors](#).

Yet the question is not solely about the carbon price level. The stability of a certain carbon price is also fundamental in facilitating investment decisions. However, price volatility is inherent to the EU ETS, with sharp dips and spikes, such as those seen during the early phase of the Covid-19 pandemic or the energy crisis in 2022, reflecting the normal functioning of the carbon market. These fluctuations result from various factors impacting the demand for emission allowances, unless price floors and ceilings are introduced – measures that legislators have consistently rejected for the EU ETS.

[Projections](#) for the EU ETS price level by 2030 vary, but most fall in the range of EUR 130-160/tonne. But the more immediate debate centres on how to trigger investment in cleantech in the short term, especially for industrial decarbonisation, with the absence of higher EU ETS prices and continued carbon price volatility. Instruments like carbon contracts for difference (CfD) might play a more significant role in driving investment. That said, they come with higher associated costs and – like contracts for difference used to stimulate investment in renewables – a certain fiscal burden for states.

DEEP EMISSION REDUCTIONS REQUIRE CLARITY ON CARBON REMOVALS

The debate on deep emission reductions is set to intensify in the 2024-29 cycle, as the cap on EU ETS emissions is projected to approach zero by 2039, contingent on maintaining the recently agreed trajectory beyond 2030. This necessitates careful reflections on emission trajectories and strategies for addressing residual or unabated emissions, particularly in hard-to-abate sectors.

Achieving these ambitious goals will hinge on the development and deployment of [carbon removal technologies](#), raising questions about their technological readiness, required investment and necessary regulatory frameworks. The [Carbon Removal Certification Framework](#) adopted earlier this year marks a big step forward but more work remains to be done to explicitly frame the business case for carbon removals in the EU. The EU's overall positioning, and the Commission in particular, on carbon removals will be crucial. This position will shape domestic policies on deep emission reductions as well as the EU's stance on [international credits](#).

DECARBONISING THE ENERGY SYSTEM AMID PROMISES TO LOWER ENERGY PRICES

- Decarbonising the energy system must be accompanied by a clear strategy to reduce investment uncertainty, thereby unlocking private investment while avoiding undue fiscal burdens on states.
- Increased flexibility is essential for a decarbonised energy system. Assessment is needed to identify and match flexibility solutions within and across Member States. It must also include a more rigorous and thorough approach to integrating an estimate of total system costs.
- An integrated EU-wide electricity market must be maintained, not least to ensure liquidity, to enable business, industry and suppliers to hedge and to ensure a level playing field for business and industry.

The von der Leyen II Commission faces the challenge of persistently high energy prices, with both electricity and natural gas prices remaining above the pre-crisis levels of 2021-22. This issue, highlighted in both the Letta and Draghi reports, is neither new nor unexpected. For years, there has been an assumption that the transition to renewable energy, coupled with the liberalisation of electricity and natural gas markets, would provide cheap and clean energy. This promise has yet to fully materialise.

Energy costs will remain pivotal in shaping EU competitiveness, extending beyond the immediate concerns of energy-intensive industries that currently dominate discussions. With the spreading electrification of end-use sectors like buildings and transportation, and the growing demand for electricity in cleantech manufacturing and digital solutions, the significance of available, affordable and dispatchable low-carbon electricity is ever more apparent.

This underscores the need for a cost-efficient energy system. That is particularly so when rebuilding the entire energy system to accommodate low-carbon generation (which will mostly be renewables), while expanding electrification across sectors and raising the share of sustainable fuels. Fast-tracking electrification will require key decisions regarding grid expansion, modernisation and system flexibility. All these aspects call for substantial investment and a mechanism to channel it, on top of investment in low-carbon generation.

LOW-CARBON ELECTRICITY: WILL THERE BE SUFFICIENT INVESTMENT FOR CHANGE?

A successful transition to a low-carbon energy system relies on making electricity the main energy source. The principle of energy efficiency and electrification first prioritises electrification as the most effective means of decarbonising end-use sectors such as industry, buildings and transportation, where feasible.

Following these expectations, projections indicate significant surges in electricity demand by 2030 and by 2050. To meet this demand, the electrification rate will need to surpass 60 % by 2050. A decarbonised energy system will also require ‘molecules’ to decarbonise beyond the power sector, i.e. sustainable fuels, which will themselves depend on large quantities of low-carbon electricity.

Meeting this target won’t be easy. Despite continual efforts, the rate of electricity penetration in final energy demand has only moderately increased in 30 years, reaching [a quarter in 2023](#). Achieving far higher electrification rates requires not only replacing fossil fuel-based electricity generation with low-carbon alternatives, but also extensively deploying new, additional, low-carbon generation capacity – mostly renewables. This will require further flexibility solutions for the energy system and the expansion of the grid.

Scaling up electrification requires a robust supply of manufacturing equipment, skills and services. This puts industrial policy at a crossroads, with a pressing need to foster the domestic manufacturing of essential equipment while also addressing emerging import dependencies on manufactured equipment and [critical raw materials](#). Moreover, the conversation around the [green jobs](#) necessary to support this large-scale transformation has never been more relevant.

But first and most importantly, electrification will require large-scale investment across the entire energy system, including in low-carbon generation (mostly renewables) and in flexibility solutions to integrate renewables into the system. It will be needed for grid expansion and modernisation, as well as electrification of demand itself (including EVs and heat pumps).

Non-financial barriers – such as permitting delays, complexities and hold-ups in environmental impact assessments, and bottlenecks in grid connections – have proved able to severely hinder project advancement (and have been at the centre of legislators’ attention in the outgoing cycle). Still, the ultimate driver of private investment inflows will be the profitability and bankability of projects, which remains a significant challenge for many low-carbon and renewable projects.

Investment in renewables, which are CAPEX-dominated, requires ensuring that revenue streams from electricity sales cover debt payments and current costs. Revenue uncertainty can lead to higher risk premiums, making projects less attractive to investors and to financiers who may be dissuaded from providing credit to projects. Therefore, the bankability of renewables remains dependent to large extent on the certainty of revenue mechanisms.

The [chronic issue](#) of stimulating long-term investment in renewable generation has both influenced and been impacted by the functioning of the EU electricity market. Although it's true that decreasing the [levelised cost of electricity](#) (LCOE) would make renewables competitive and spur their uptake, price stabilisation remains a central aspect of investment decisions in renewable generation under the current market design.

In the 2022-24 reform of the electricity market design, legislators addressed this problem mainly through two-way CfD and power purchase agreements (PPAs). While CfDs and PPAs are effective tools for avoiding short-term price volatility and providing certainty for investors, the effective implementation of CfDs and PPAs in practice remains to be seen. The introduction of CfDs may also need to ensure that these instruments do not impose excessive fiscal burdens on Member States. The uptake of these long-term contracts is not expected to materialise as a new market. However, if their volumes grow, it could impact the overall dynamics of forward markets. It will need to be discussed how to balance the increasing volumes being removed from the market to over-the-counter markets with the forward markets – all while retaining a careful balance with shorter-term price signals.

Furthermore, expanding and modernising grids will require an impressive amount of investment, as outlined in the [EU action plan for grids](#). It may entail a radical rethink of how to finance new lines and interconnectors, as the Regulated Asset Base model may not be suitable for such a massive undertaking. For cross-border infrastructure, increased EU funding may be essential to ensure sufficient access to finance.

FLEXIBILITY AND (TOTAL) SYSTEM COSTS DO MATTER

The security and resilience of a low-carbon electricity system will hinge on its flexibility. As weather-dependent renewables take on a dominant role in the electricity mix, the system will require [substantial flexibility solutions](#) on both the demand and supply sides – i.e. the ability to adjust consumption or production in response to price signals or to provide services to system operators.

Projections from the [European Environmental Agency and ACER](#) suggest that Europe's electricity system flexibility will need to almost double by 2030. Increasing system flexibility requires developing demand-side response within Member States and cross-

border within the EU's internal energy market. Renewable-dominated systems should ultimately function as collectives, where one energy source replaces another according to the available generation.

Flexibility will also bring more attention to the discussion about the total system costs of the electricity system. While the LCOE of renewables has been steadily falling, making them increasingly competitive with fossil fuel generation, cost-efficient decarbonisation of the energy system also depends on [the overall costs of a decarbonised system](#). Unlike LCOE, system costs entail considering not only generation costs but also factors like grid infrastructure, storage solutions and other flexibility measures.

Various studies have different estimations regarding the costs of a future, decarbonised electricity system, including a 100 % renewable one. Studies, including one commissioned by [RTE](#) but also a [Swedish study](#), show a system reliant solely on renewables can be more expensive than a more diverse one that incorporates various combinations of renewables and low-carbon, dispatchable sources, while scholarly estimations [diverge substantially](#).

The overall system costs need particular attention, as they have the potential to become a pain point for the EU economy, extending beyond energy-intensive industries to manufacturing, transportation, services and other sectors. At the EU level, it will be important to comprehensively integrate the assessment of total system costs into relevant future legislative and non-legislative initiatives. For Member States, a more holistic approach that considers geographical conditions and the availability of low-carbon energy resources and flexibility solutions in their energy mix can help create a more interconnected system, with sufficient low carbon generation and flexibility boosting low-carbon deployment.

IS THE 'DECOUPLING FROM GAS' DEBATE BACK (AGAIN)?

Energy prices have been a concern for years – albeit for different reasons. The sharp spikes in 2021-22, driven by the shift away from Russian hydrocarbons, required both significant extra spending and a restructuring of supply chains. While the immediate energy crisis has somewhat eased, the EU remains exposed to global energy price fluctuations and shocks, particularly in the liquified natural gas market.

These shocks feed directly into electricity markets, as natural gas often serves as the marginal price-setter in the electricity market. Moreover, in the post-2022 context, the interrelation between gas and electricity markets in the EU has shifted from volumes to values: even though gas demand has been declining since 2022, the impact of gas on the power sector has increased.

During the peak of the 2022 energy crisis, a comprehensive reform of the electricity market was framed with a political goal of, among others, [decoupling gas from electricity](#) to insulate electricity prices from gas price spikes (and CEPS has [previously discussed](#) the issues at stake here). Although this reading of the reform settled down during the 2022-23 inter-institutional negotiations, the increasing share of electricity with very low and zero marginal costs will continue to put political pressure on the debate.

The Draghi report's call for 'decoupling', along with several proposals he makes for the gas market, raises broader questions about the energy market design which are likely to (unhelpfully) arise again. This also touches on a far more strategic issue – is the liberalisation of energy markets, a principle that has been a cornerstone of EU energy policy for over two decades, at stake now? Some ongoing discussions, including those also related to gas markets, could also signal a move towards a new interventionist approach, which is questionable at best.

THE FUTURE OF ENERGY-INTENSIVE INDUSTRIES IS A BIG UNKNOWN

- The EU needs to have an honest discussion about the future of carbon- and energy-intensive industries, and to reach a consensus on whether and to what extent to maintain a manufacturing base on its territory. This discussion should also address the potential reallocation of these industries (if any remain in Europe), which will be largely influenced by the availability of relatively affordable, low-carbon, dispatchable energy. Such reallocation could involve significant political sensitivities and economic redistribution among Member States.

Energy and carbon intensities will shape industries in the EU, influencing their redistribution across Member States and wider regions as well as determining which industries can thrive in the EU. The future of carbon- and energy-intensive industries remains uncertain and is likely to be one of the most contested topics in the 2024-29 cycle.

Rising carbon costs resulting from the EU ETS reform in 2023 will place further pressure on energy-intensive industries to accelerate the decarbonisation of their energy combustion and industrial processes. This process will heavily depend on access to affordable low-carbon (dispatchable) electricity and the readiness of technological solutions. The availability of technologies across the industrial processes of assorted sectors differs widely in terms of readiness, deployment and commercialisation. In some cases, such as cement, some residual emissions are unavoidable.

Unless such industries find cost-efficient options for decarbonisation, they will face increasing carbon costs alongside decreasing free allocations, which are set to reach zero by 2034. In that case, solutions may include closing their most carbon-intensive operations or relocating production outside Europe. This is politically sensitive, with local and regional repercussions, and sparks overall debate about the future of the EU's manufacturing base. Member States have varying degrees of access to affordable low-carbon (dispatchable) energy, which will undoubtedly influence the shifting patterns of energy-intensive industries across the continent.

The [Carbon Border Adjustment Mechanism](#) (CBAM), which is not yet fully operationalised, aims to equalise the carbon costs of imports with those paid domestically by certain sectors – i.e. cement, iron and steel, aluminium, fertilisers, electricity and hydrogen. Yet the vulnerabilities of export-oriented sectors covered by CBAM have also been left unaddressed in the outgoing political cycle. With increasing ETS costs and resulting

production costs, export-oriented industries are struggling to remain competitive with their more carbon-intensive competitors, which incur lower or no carbon costs, and in the absence of standards embedding the carbon content globally or regionally.

CBAM does not address – nor was it designed to address – the potential competition faced by these sectors from the import of goods with low-carbon content. Even when relying on low-carbon energy, however, energy-intensive industries in the EU may find themselves at a disadvantage compared with similar industries in other regions that benefit from access to abundant low-carbon energy at potentially lower costs. The tiebreaker will be affordable, low-carbon, dispatchable power.

In the new cycle, there should be a discussion on the merits of installing a manufacturing base outside the EU to benefit from access to resources and lower costs – along with a careful calculation of the risks this may entail. At the same time, the discussion will need to address the merits and limitations of [economic security-oriented strategies](#), which would aim to retain some of these industries even when they are not fully economically viable, solely for reducing dependency on non-EU countries.

This discussion about the future of energy-intensive industries will inevitably be a central and uneasy theme in the new cycle. Opinions vary widely. The Draghi report proposes increasing support for these industries but there are also calls to better consider the [difficulties these industries will face](#) over the coming years due to higher ETS costs. Some would suggest, however, that it's a classic case of 'sink or swim' for these industries – [only those that can adapt and survive](#) in Europe will remain in Europe.

The outcome of this discussion will significantly shape the trajectory of energy-intensive industries and their role in Europe's decarbonisation efforts. Their future will also affect the EU's future energy demand and related plans.

CONCLUSIONS

The 2024-29 policy cycle will confront several complex challenges in the energy and climate portfolios, each of which presents significant pain points with no easy solutions. Success or failure on energy and climate matters will affect several other policy domains and will be increasingly strategic for the EU's new industrial policy, as well as for decarbonisation and clean growth. Sometimes, policy choices will have to reflect difficult trade-offs and conflicting priorities.

Ultimately, the 2024-29 cycle will be a period of implementation and recalibration. The EU's strategies for meeting the targets set under Fit for 55 and other frameworks will need to be revisited in light of economic realities, with a focus on delivering concrete, practical outcomes rather than aspirational goals.



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