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# Industrial and energy challenges for the next European Commission (2024–2029)

## EXECUTIVE SUMMARY

- The next European Commission (2024-2029) must prioritize industrial coordination and electricity market integration to ensure the success of the energy transition and achieve targets for energy and economic autonomy.
- To this end, the next Commission must address three core challenges: the challenge of European competitiveness, the challenge of fragmenting the Single Market and the temptation to go national.
- Electricity market integration offers significant long-term benefits for the EU, including increased resilience, reduced dependency on fossil fuels, and lower price volatility.
- To address these challenges, the Commission should adopt Horizontal Policies to coordinate Member States' industrial strategies, prioritize investment challenges, and ensure fair redistribution of industrial capabilities.
- Utilizing Green Public Procurement can further advance the European Green Deal objectives by updating procurement directives, prioritizing sustainability and resilience in bids, and partially subsidizing projects aligned with green criteria



# 1. Von der Leyen & the legacy of the European Green Deal

In December 2019, the European Commission under Ursula Von der Leyen presented the European Green Deal (EGD). With an investment of at least €1.8 trillion, alongside strong legislation packages and the creation of new instruments, the first step to transform Europe into the first neutral continent has been completed.

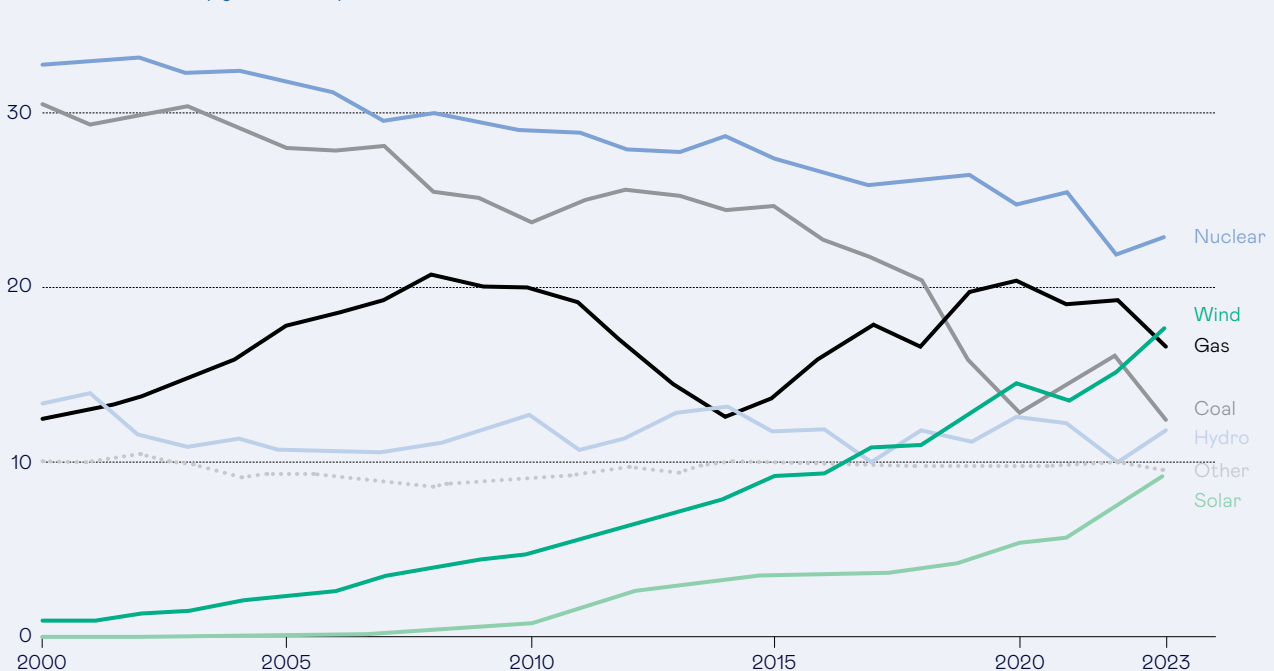
Despite their ambitious plan, the Commission faced the ‘perfect storm’ that could have derailed the efforts of the EGD. Just four months after its presentation, the pandemic obliged governments to enforce lockdowns, halting the European economy for months. The health emergency would be followed by the illegal Russian invasion of Ukraine. The war, subsequently, caused an energy crisis, which came along with a historic draught in 2022 and the drop in French nuclear energy generation. When Europe was hit by these shocks, experts speculated on whether they could prevent the EU from approaching its climate goals (Osička & Černoč, 2022). The Von der Leyen Commission faced these challenges by activating green opportunities as a managing tool, such as the design of the NextGeneration funds and the creation of the Common Debt instrument. Through these efforts, the Commission has attempted to conjugate decarbonisation with strategic autonomy to push forward the bloc’s economy.

The EU has achieved greater levels of resilience through EU solidarity and by furthering market integration. For instance, demand for natural gas fell by 19% in the EU27 in 2023 against the average demand for 2019-2021 (McWilliams et al., 2024). With a cumulative solar capacity of 263 GW, the EU has positioned itself on track to surpass the RepowerEU capacity goal of 380 GW by 2024. Furthermore, for the first time in 2023, wind power (17.6%) accounted for more electricity generation than gas (16.8%) (Brown & Jones, 2024).

Figure 1. Share of EU electricity generation. Source: [EMBER](#).

Wind produced more electricity in the EU than gas for the first time in 2023

Share of EU electricity generation by source



## 2. Challenges for the Next European Commission (2024–2029)

The EU faces the enormous task of reconciling competitiveness, economic security, decarbonisation, social cohesion and fiscal consolidation. Despite the positive progress, the outgoing Commission has failed to address some of the underlying issues for European industry. Thus, the next Commission will inherit three key challenges it must overcome to achieve this task: the challenge of European Competitiveness, the challenge of fragmenting the Single Market and the temptation for Member States to go national.

### The challenge of European Competitiveness

The EU faces a pressing challenge in its competitiveness gap in relation to China and the United States. The ongoing conflict in Ukraine has underscored Europe's geostrategic vulnerabilities, including apprehensions about China potentially weaponizing cleantech and critical raw material exports, akin to Russia's manipulation of gas supplies. Additionally, the United States' 2022 Inflation Reduction Act (IRA) serves as a wake-up call for Europe to elevate its cleantech initiatives and establish itself as a competitive, autonomous player in key growth sectors. These mounting concerns about the EU's strategic autonomy have intensified Europe's pursuit of a green industrial policy.

Achieving strategic autonomy and economic competitiveness, however, presents formidable challenges for the European Commission. For one, national contexts are very diverse. Each Member State has a unique set of industrial capacities, geographical considerations, technology preferences, and fiscal capacities. These differences significantly shape their approaches to resilience and strategic autonomy, often leading to divergent viewpoints on EU-level proposals. This makes defining resilience and autonomy hazardous, as countries grapple with the fundamental question: what strategies will best safeguard Europe's interests while maintaining openness?

To address the lack of competitiveness, the EU must prioritize the development of low-cost, low-carbon electricity through renewable energy deployment, grid reinforcement, and enhanced flexibility (Sgaravatti et al., 2023). But this on its own will be insufficient, without EU wide coordination most efforts to increase competitiveness will be inefficient. But proposing EU-wide policies will require navigating potential divisions among Member States. Striking a balance between unity and accommodating diverse needs is a delicate task the next Commission will face.

### The challenge of fragmenting the Single Market

During the current Commission's term, the emerging strategy has been to implement a 'vertical' industrial policy, pushing for more subsidies and reshoring production to Europe. Examples of these policies include the [Net-Zero Industry Act](#) (NZIA) and the [Strategic Technologies for Europe Platform](#) (STEP), which have been low efforts. For instance, the NZIA labels technologies as *strategic* and sets targets for at least 40% of their production to be done in Europe by 2030. This has proven problematic as Europe does not have the capacity to achieve some of these objectives and for some technologies, it makes little economic sense (Jansen et al., 2023). Meanwhile, implementation and supervision fall mainly on Member States with limited oversight from the Commission. This is problematic for four reasons (Tagliapietra et al., 2023):

- a) **The technological scope is over selective.** Thus, it risks creating path dependencies that could lead to creating further costs and troubles ahead.
- b) **Governance is light.** At the EU level, oversight of national decisions is intentionally kept minimal. Notably, there exists no mechanism to scrutinize the selection of NZIA projects by EU countries in terms of their effectiveness in meeting climate or resilience targets, their proportionality, or their impact on creating a level playing field. This lack of oversight poses a risk of divergence within the Single Market<sup>1</sup>.

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<sup>1</sup> Divergence in the Single Market is one of the greatest risks faced by the EU. The Single Market has been the source of success in affronting the different crises the EU has faced, fragmenting it would risk turning it unworkable.

- c) **The EU cannot compete in a subsidy race across the board.** Instead, it can only compete with subsidies that result in a comparative advantage against China and the US.
- d) **Lack of new funding.** One of the main issues the current Commission has faced has been the inability to produce new funds for industrial efforts. Instead, it has relied on the emergency framework for Member States to allocate funding. Moreover, efforts such as the NZIA are mere repackaging's of existing funds, which leaves strong uncertainties for the next Commission.

These vertical policies have done little to address the root causes for the gap in European competitiveness, and, worse, they have exacerbated the risk for Single Market fragmentation.

### The temptation to go national

Vertical policy-making from the EU - such as the NZIA, STEP and the emergency framework coupled with the loss of competitiveness have created a situation where most industrial policies are being made by Member States. In consequence, the collective response that wildered the 'perfect storm' has lost momentum. National governments industrial policy efforts mainly focus on subsidising domestic industries and catering to domestic consumers. These policies do not focus on solving the underlying issues of lack of industrial coordination and the gap of competitiveness in the EU. Instead, they leave most of the responsibility to Member States, which is problematic for several reasons.

First, countries with low energy prices fear that further integration will raise their own energy cost, subsequently, affecting their production. These fears are, nevertheless, ill-founded. The risk of fragmentation is much greater than any of the marginal gains that could result from national policies. In all, it would be counterproductive as the long-term losses would impede decarbonisation efforts and leave the EU at risk of widening the competitiveness gap.

Second, these vertical policies further incentivise national responses through their technical aspects. Instead of focusing on the underlying issues, the Commission has included provisions in the NZIA that give preferential treatment to certain technologies. For instance, it marks set targets for EU manufacturing of a constrained number of technologies the Commission has deemed as strategic. These targets are inefficient, as they do not include provisions for coordination of European capacities, leaving their completion to Member States. This is a departure from European success examples such as the [Battery Alliance](#).

Third, the NZIA design holds great risk for policy failure. Instead, technological neutrality would be a better approach. European policies should address the root issues that are faced by cleantech and other sectors, such as the lack of access to finance, high energy costs, policy fragmentation and scarcity of critical skills.

The next Commission must address the underlying issues of coordination and competitiveness. The focus should be on developing horizontal governance by using available funds to incentivise pan-European collaboration and further the electricity market integration. In the following section, we focus on some directions the next EU Commission could take to address these core issues.

## 3. Directions for the Next European Commission (2024-2029)

The next Commission will play a fundamental role in the outcome of the energy transition. Policy is the most important factor in energy transitions, as choice and implementation dictate the outcome in terms of electricity prices and energy production (Blazquez et al., 2020). The progress towards integration will determine whether the bloc will accomplish its targets for energy and economic autonomy and resilience. Therefore, **industrial coordination and electricity market integration must be a priority for the EU in the period 2024-2029.**

### The need for electricity market integration

The integration of the European electricity market holds several long-term gains for the EU that will be greater than any potential marginal benefits for single Member States. While the electricity market reform has been a step in the right direction (Linares et al., 2024), a lot of work remains to be done.

Electricity market integration holds several benefits. Integration would increase the EU's resilience and autonomy, as it would lower the bloc's dependency on fossil fuel imports. In turn, reducing price volatilities (Zachmann et al., 2024). Next, by creating a single pool of renewable energy production, the EU could exploit the different weather patterns and geographical conditions across the continent. Moreover, by using the full potential of renewables as a bloc, the need for back-up capabilities would be reduced by 19% in comparison to isolated responses. In addition, the need for installed storage capacity would be reduced by 31% (Roth & Schill, 2023).

Integrating the electricity market means that EU countries can share the risk of external shocks (e.g.: unavailability of power lines, power plants or fuels; economic crisis, supply chain disruptions or extreme weather events). External shocks are unlikely to affect all EU countries at once, thus, an integrated market would prevent strong supply problems in affected countries. Member states would benefit from other countries stable production and prices across the EU. In extreme cases, if the whole bloc is affected by an external shock, letting markets identify the cheapest prices will be more advantageous. In contrast, under the current system, some countries need to take extremely expensive measures while others continue to operate close to business as usual (as in the 2022 energy crisis).

The new Commission must hold electricity market integration as a mid-term goal. The next tenure will be fundamental in its development. Nevertheless, the question that remains is how to manage the transition in the short term. This brief argues that it should be managed through Horizontal Policies and a smart use of public procurement at the EU-level.

### The need for Horizontal Policies

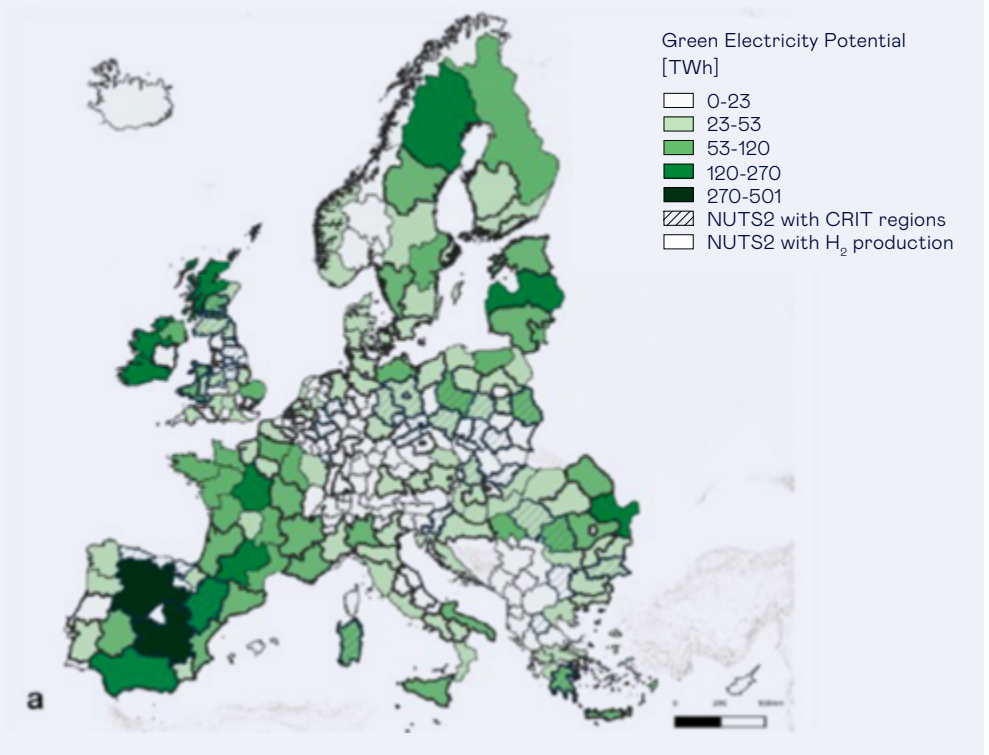
The next European Commission should focus on Horizontal Policies instead of the current vertical policy-making. The EU should focus on coordinating all Member States' existing industrial policies, including those at the sub-national level. European policies should prioritize addressing investment challenges across sectors, including cleantech, by tackling issues such as limited access to finance, high energy costs, policy fragmentation, and skill shortages.

A key reason for the next Commission to focus on coordination is the lack of common funding for industrial policy. At the moment, there are no guarantees of the EU's capability to obtain new funds. Coordination would increase efficiency, which would go a long way in reducing capital costs. By adopting horizontal policies, the Commission can create a more conducive environment for innovation and sustainable development. Reducing industrial policy fragmentation would increase credibility, trust, and stability for investment.

The push towards decarbonisation will change the current distribution of industrial strengths, as new regions emerge with greater potential to generate green energy. The Commission's approach to industrial policy should be guided by the need to ensure a fair redistribution of industrial capabilities that will benefit the Union as a whole. To ensure these efforts succeed, the next Commission must play a coordinator role for industrial strategy. This should be done by allowing project competition at the European-level. Criteria for project selections should ensure three core criteria: size, competitiveness and European collaboration (projects should be prioritized if they are based in various Member States).

**Figure 2.**

(European Commission. Joint Research Centre., 2020)



### The EU must utilise Green Public Procurement

The EU should use every tool available in the EGD toolbox. Public procurement remains underused and holds great potential to reach the EU's objectives (Sapir et al., 2022). The current public procurement directive, unchanged since 2014, needs updating to address green procurement and regulatory hurdles. The EU's heightened decarbonisation goals, a central part of the EGD, require specific green criteria and targets to ensure that the winning projects are not only the least costly, but also the most efficient in terms of security and sustainability.

Sector prioritization for these targets should consider both emissions contribution and procurement's market weight for private industry spillover. Improving data collection and harmonization on Green Public Procurement (GPP) is vital for clarity and future planning. To realize these changes, investing in public authority training, and monitoring GPP uptake and performance are crucial.

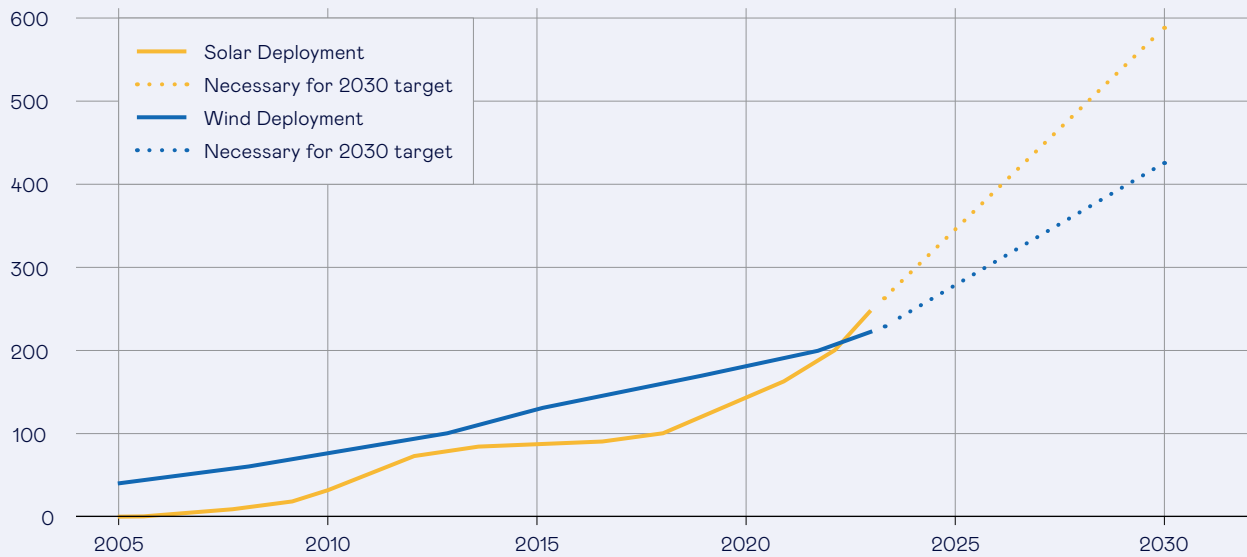
There are two ways in which the EU can use GPP to advance the EGD (Zachmann et al., 2024):

- a) Link the threshold for cost-gap safeguards to the sustainability and resilience score of a bid, capped at a certain level (e.g., up to 30 percent for projects excelling in sustainability and resilience).
- b) Partially subsidize, using EU funds, the difference between the costs of the winning bid (considering the resilience and sustainability score) and the lowest-cost bid (based on price only).

## 4. Conclusion: How to get to 2030?

**Figure 3.** EU Solar, Wind Deployment and 2030 path (GW). Source: Bruegel.

EU Solar, Win Deployment and 2030 Target (GW)



As the European Commission transitions into its next term, it must tackle the challenge of integrating the electricity market within the EU, particularly in the context of achieving its ambitious climate goals by 2030. Despite notable advancements, including a promising position in wind energy (wind power electricity generation has already surpassed that of natural gas) and substantial progress in battery technology catalysed by initiatives such as the Battery Alliance, the Commission faces a complex landscape. The transition presents a bumpy and fragmented path, intensified by the need to communicate its complex details to the public. While the long-term benefits promise reduced energy costs, the immediate question remains: how to bridge the gap until then? This challenge extends beyond energy to other sectors, evident in recent farmer protests signalling the onset of a socially competitive phase in the energy transition.

Looking forward, the acceleration of decarbonisation efforts in transport, buildings, and agriculture by 2030 will introduce new complexities, driving a delicate balance between policy imperatives and societal acceptance. The looming spectre of the far-right politicizing climate policy underscores the urgency of finding a workable path forward, one that transcends partisan divides. However, amidst these challenges lies an opportunity for the EU to demonstrate leadership. By recalibrating legislative instruments, the Commission can adapt to evolving circumstances without sacrificing its climate objectives. Ultimately, the integration of the electricity market is essential in the EU's quest for climate neutrality. By fostering collaboration, incentivizing innovation, and bolstering regulatory frameworks, the Commission cannot only mitigate the risks posed by fragmented policies but also unleash the full potential of a unified energy landscape.

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