Ensuring affordable energy and a competitive European industry with the Clean Industrial Deal

Perspectives on the Affordable Energy Action Plan and new challenges

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IEEP - MEP Lunch Briefing

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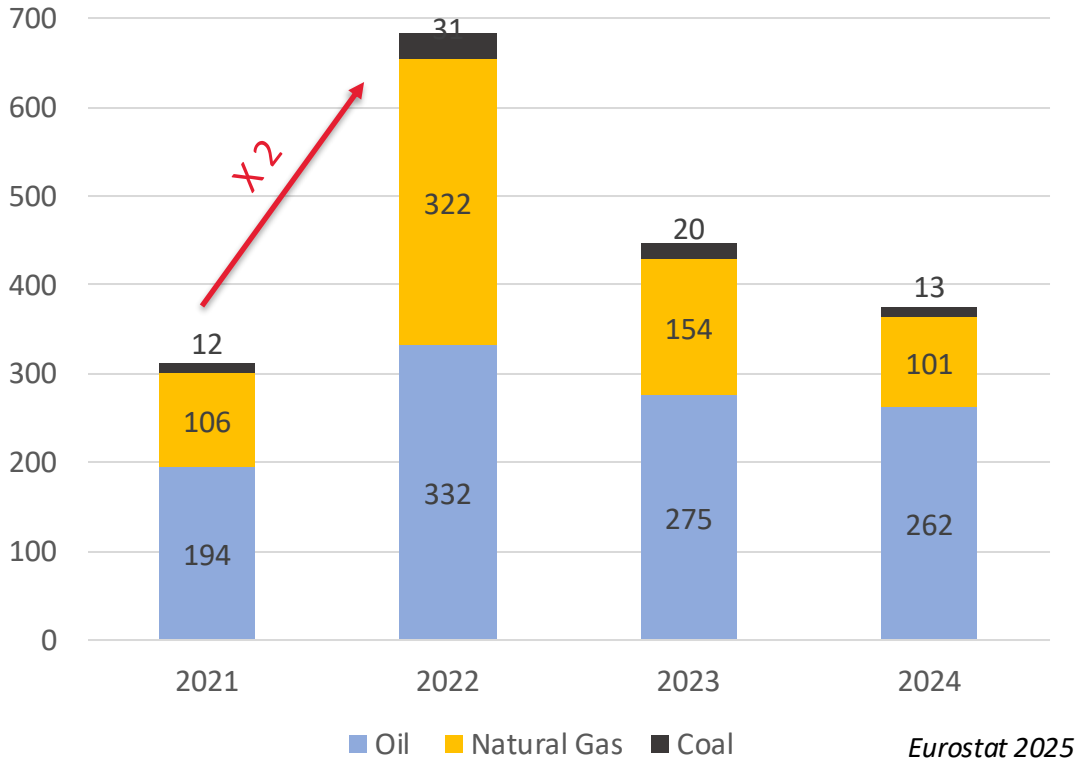
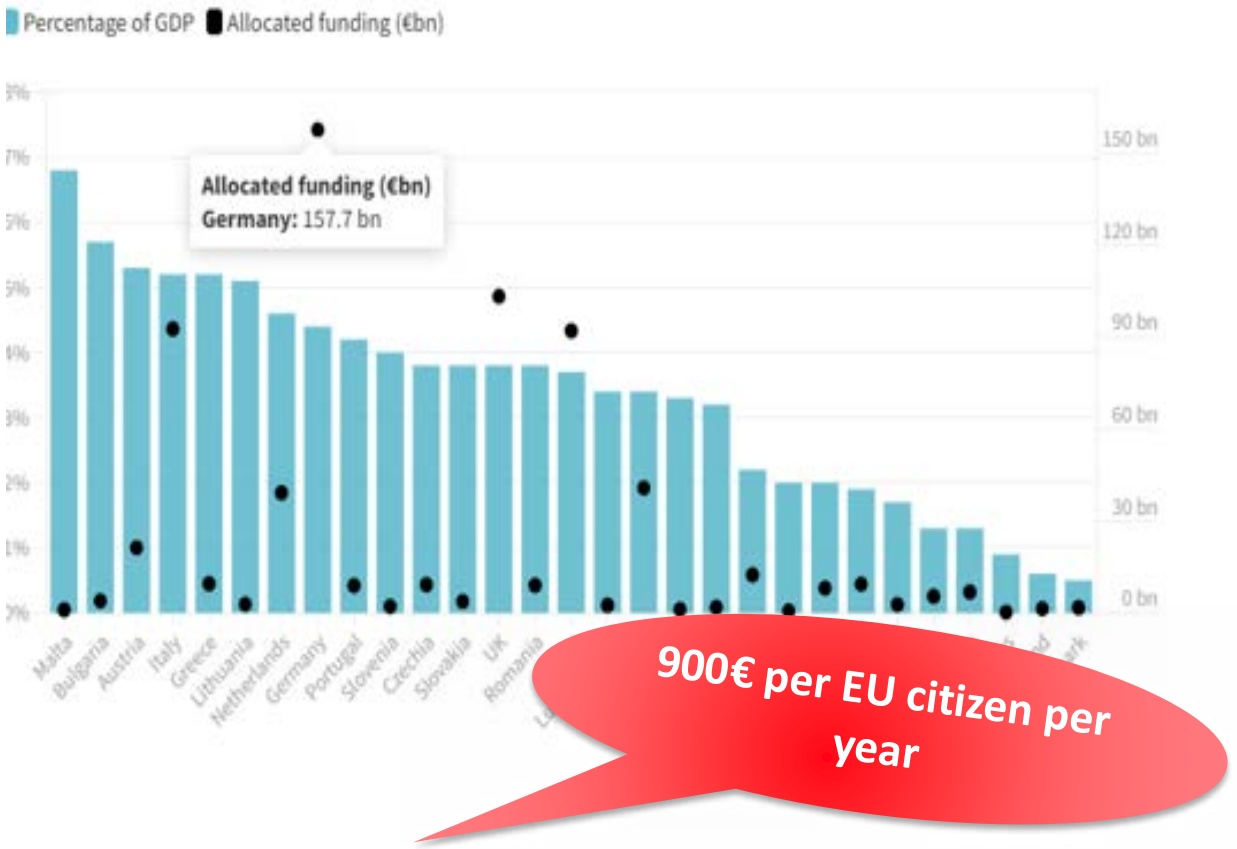
The energy crisis: a painful reminder of our dependence on fossil fuels

EU Fossil Energy import bill (€ Bn per year)



Eurostat 2025

EU Member States public spending related to energy crisis



- Over 650 Bn€ of public relief measures allocated by MS during the energy crisis
- About 600 Bn€ of cumulative additional fossil energy import costs over 2022-2024 (compared to 2021)

Briding the gap between long-term vision and short-term reality

Long-term vision

"Decarbonisation offers an opportunity for Europe to lower energy prices and take the lead in clean technologies ("clean tech"), while also becoming more energy secure"

Draghi report (2024)

VS.

Short-term reality

- *Massive investments in low-carbon infrastructure needed*
- *Price increases & competitiveness gap (partly) linked to energy prices*
- *Carbon price signal required to foster competitiveness of low-carbon energy*
- *Difficulty to transfer benefits of low-carbon energy to consumers through system optimization (power market design & flexibility)*

The affordable energy action plan : general assessment

- An impressive inventory of measures and topics addressing most relevant challenges … **but only few new initiatives ?**
- **Limited impact on short-term energy price reductions**
- **Absence of short-term approach for industrial consumers :** a void filled by national initiatives ?

Figure 3. The four pillars of the Action Plan for Affordable Energy

Conflicting views on new initiatives

"We will introduce a special relief (industrial electricity price) for energy-intensive companies that cannot be supported in any other way"

Coalition agreement 2025

"I think it is important to remain European […] let's try to be sure that it's fit for purpose in the context of the existing rules and these new guidelines"

Teresa Ribera, May 27th 2025

"The price of energy must come down, and if there are initiatives to achieve this, they must be supported accordingly […] Others can't or don't do it. That's why we shouldn't forbid those who want to do it. We have to get through this if we want to do something about the energy price — in the short term.

Stéphane Séjourné, May 26th 2025

Key questions and challenges for the future

1) **Industrial competitiveness and electrification : What should be the new guiding principles for an effective European approach ?** Can we afford (especially national) price caps ?

2) **Designing the new social contract for the transition: how to strike the deal between households and industry ?** What should be the key rules (price levels / caps, volatility & stability, effort sharing, social justice) ?

3) **Incentives and price signals for electrification** : what is needed to make consumers benefit from low-carbon energy and massively develop demand-side flexibility ?

4) **Resiliency :** is the AEAP sufficient to address the challenges of future energy crises ?

Thanks for your attention

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- *Elections in Germany: what future for climate policy in an uncertain political landscape?* IDDRI Blog Article Feb. 2025
- *The Draghi report on energy issues: a confirmation of the European Commission's strategic agenda?* IDDRI Blog Article, Oct. 2024
- *Strengthening Franco-German cooperation to promote the ecological transition.* IDDRI Blog Article, June 2024
- *The European Union's electricity transition: progress and challenges.* IDDRI Study, June 2024
- *Biomethane potential in France: mapping controversies to reconfigure the political debate.* IDDRI Issue Brief, April 2024
- *Decarbonising heating in buildings: challenges and priorities for 2030.* IDDRI Issue Brief, March 2024
- *Controlling the price of electricity in France: issues and levers in the framework of ecological planning*. IDDRI Blog

The affordable energy action plan: what's on the menu ?

- **Networks**: dynamic pricing & "innovative" financing
- **Taxation**: ETD, reduce taxes to zero, fund levies through general budget, VAT at 5.5%
- **Permitting**: limit duration + increase resources for authorities
- **Flexibility**: market access, state aid reform, incentives to flex in supply contracts
- **Electrification**: future action plan (Q1 2026)
- **Market Design & deeper integration White Paper**: (Q1 2026)
- **Tripartite contracts**: symbolic value or opening for "low carbon electricity pools"?

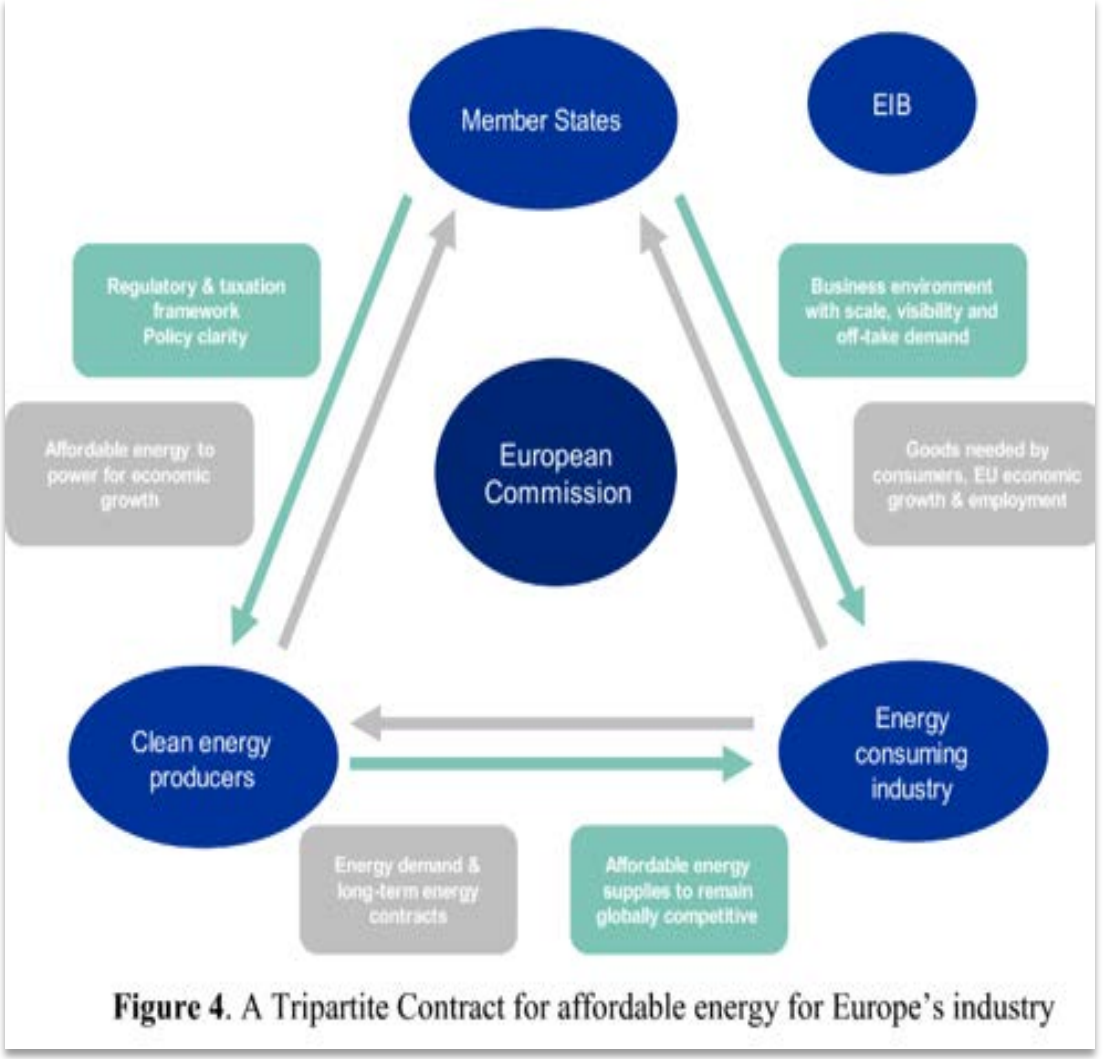
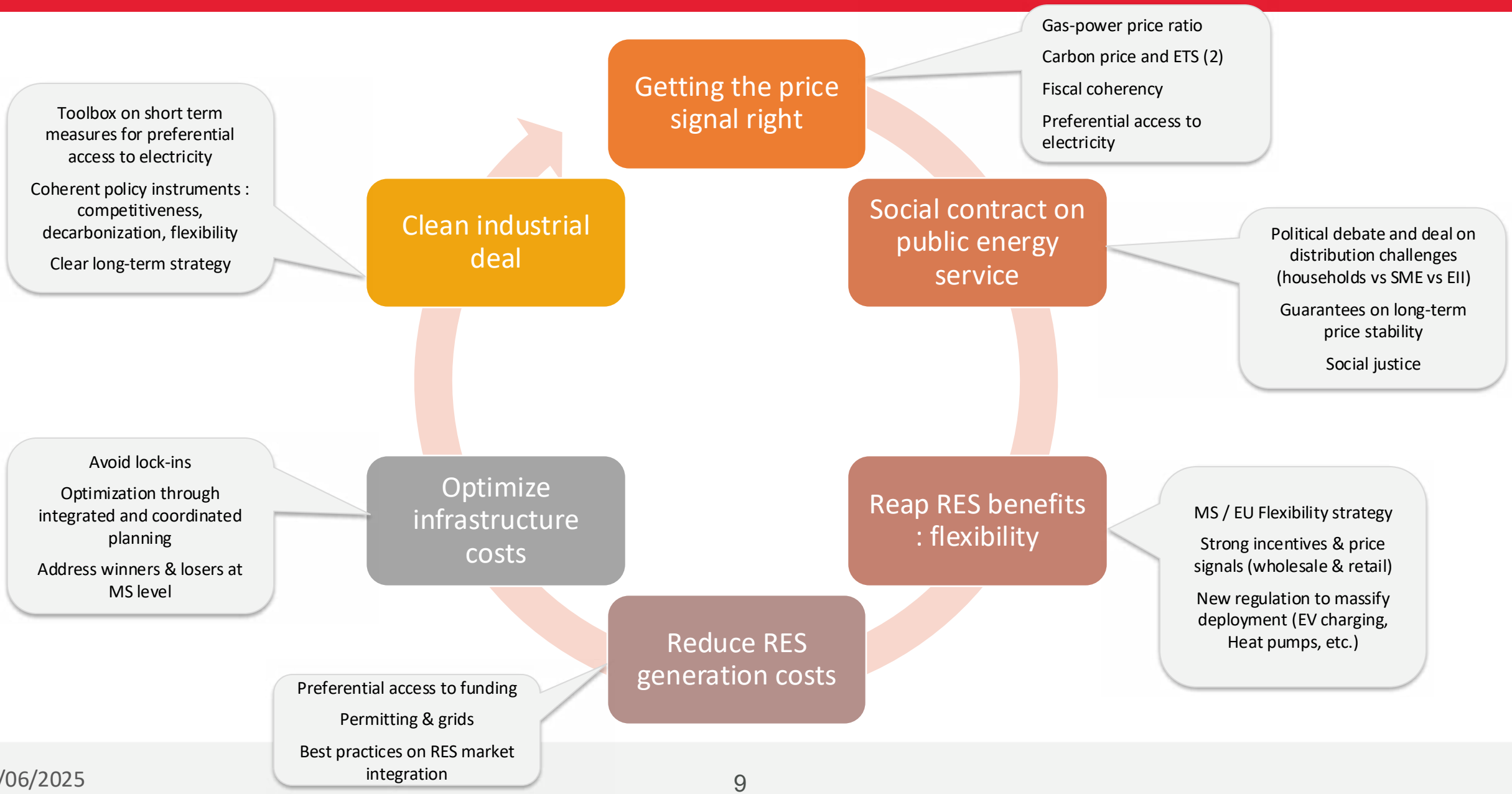
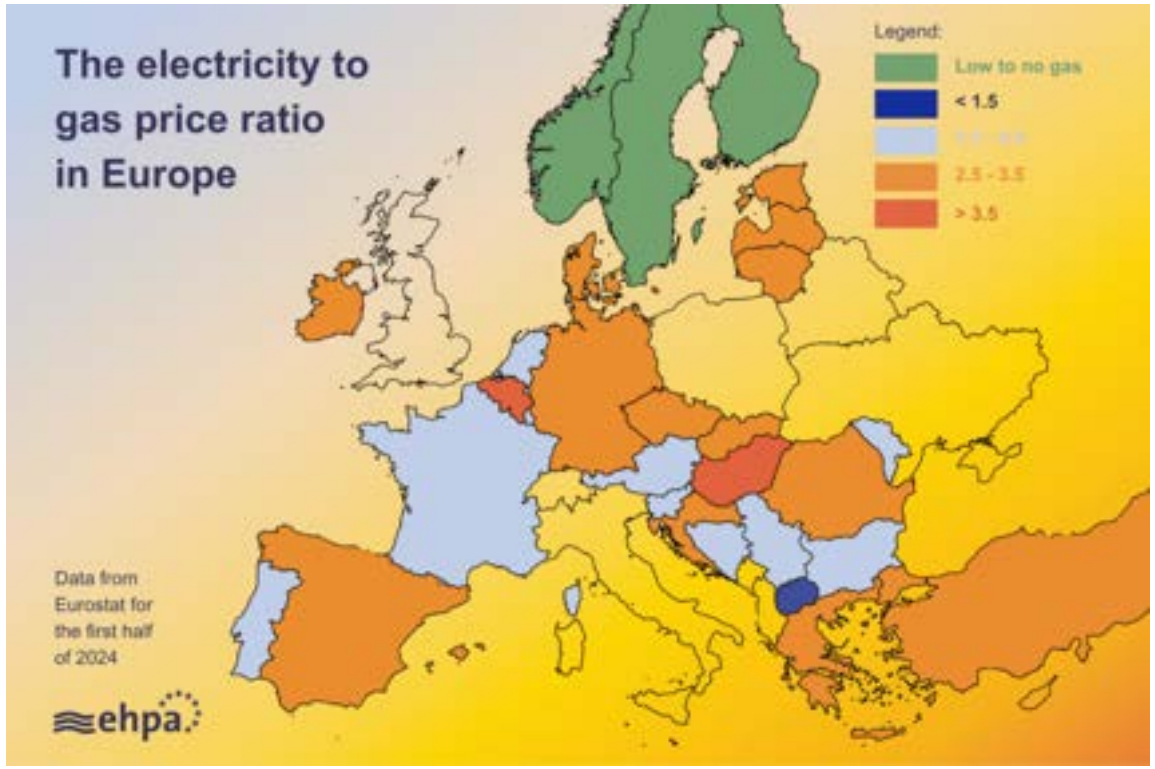


Figure 4. A Tripartite Contract for affordable energy for Europe's industry

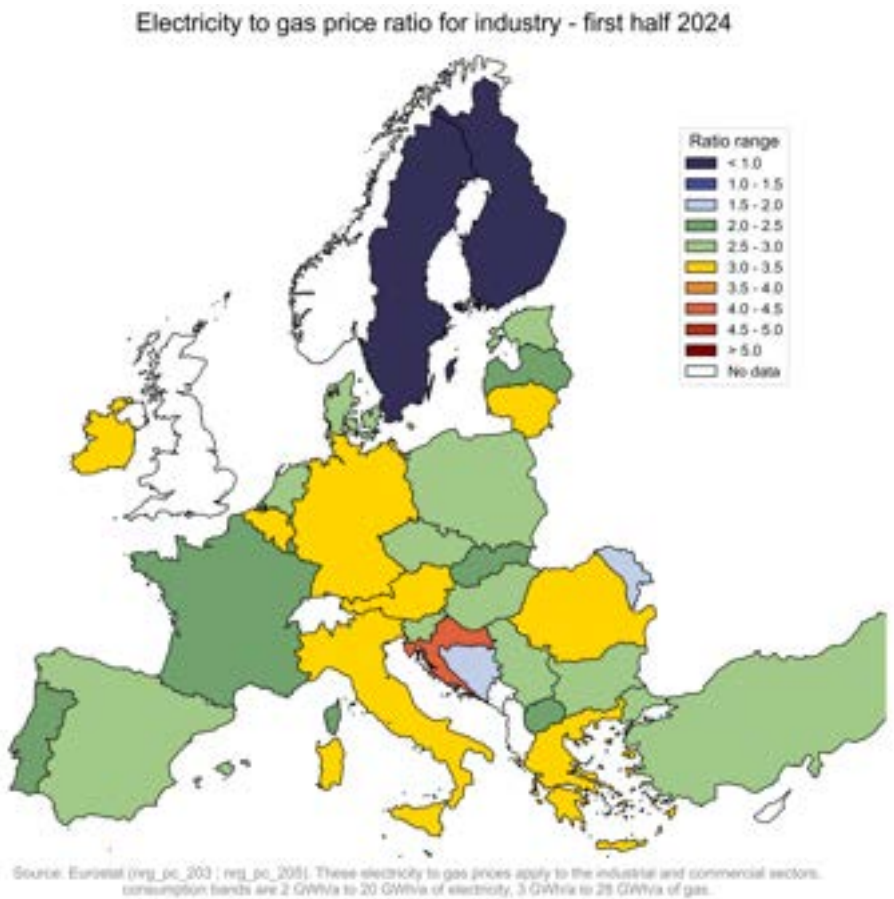
What's next ? We need a clear vision to implement the Green Deal



Getting the price signal right

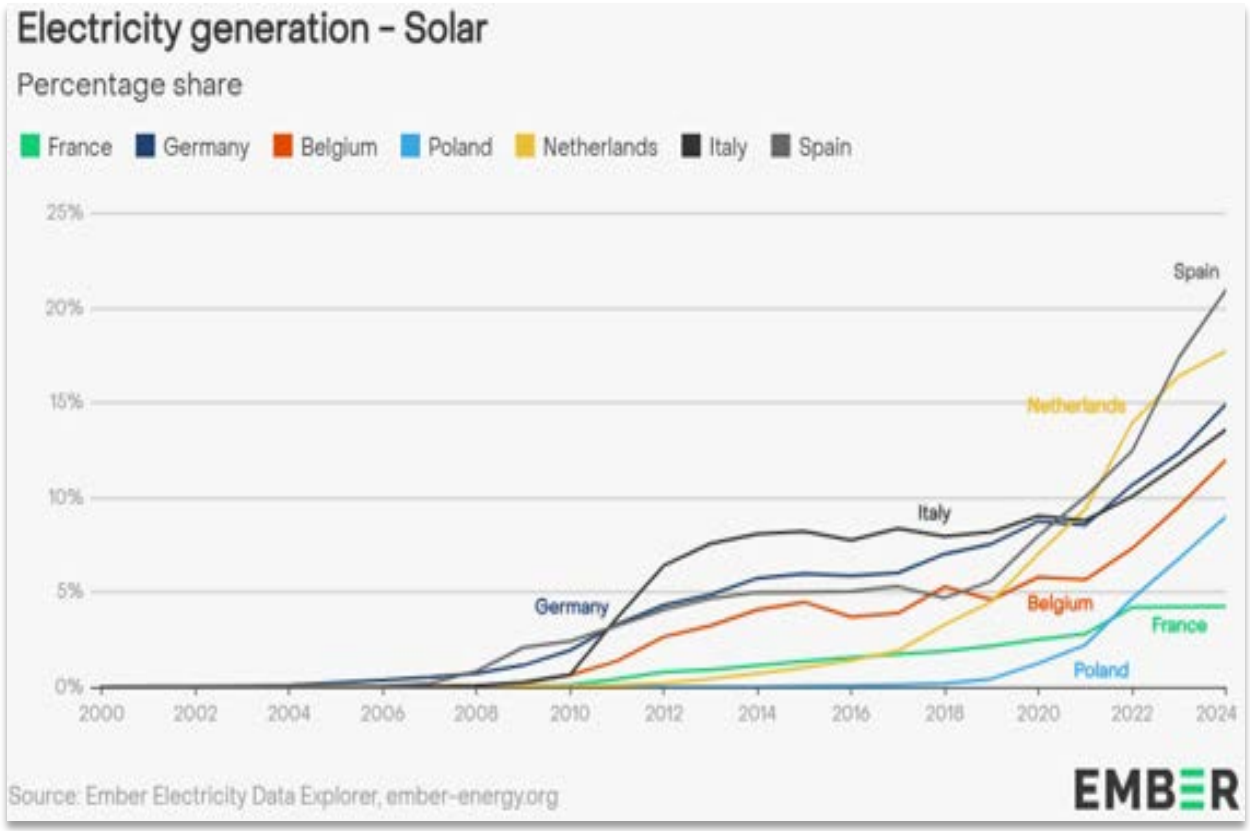


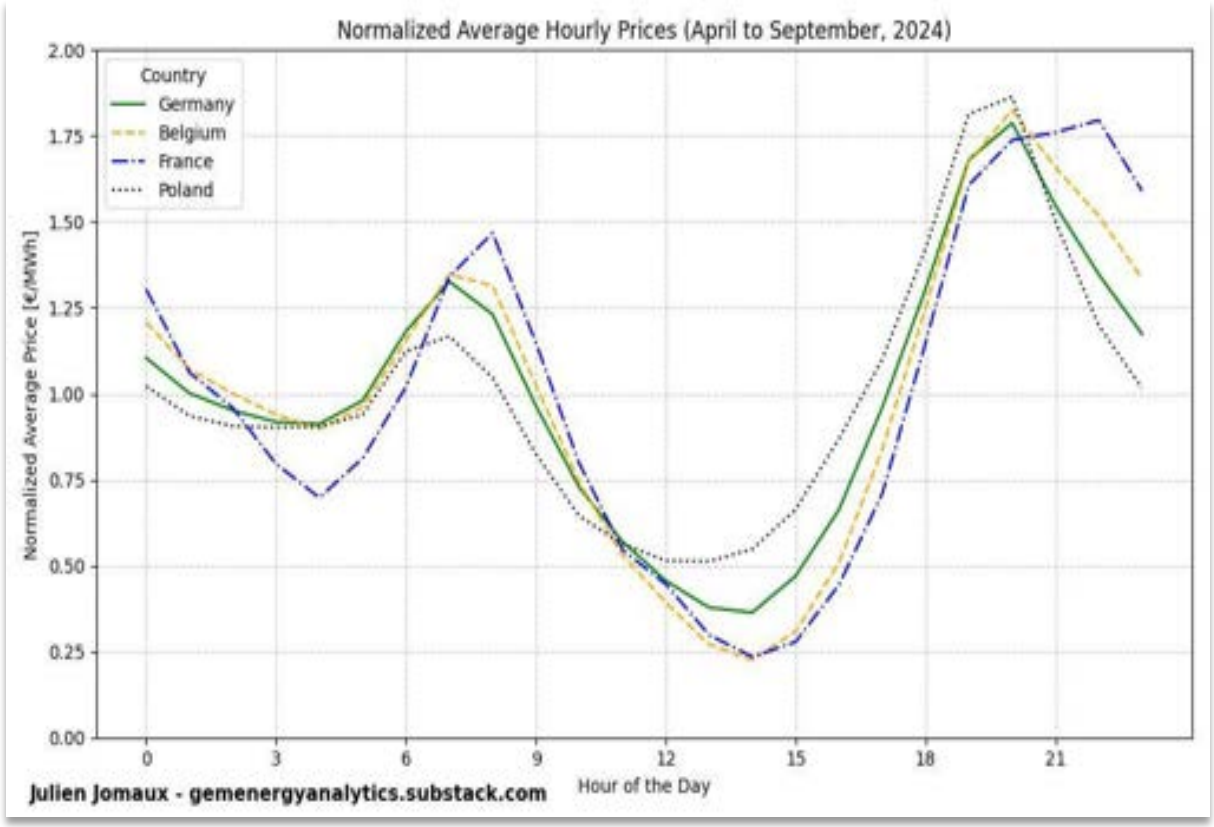
Source : ehpa.org



- In most member states, the electricity to gas price ratio remains too high to accelerate electrification (of heat in particular)
  ➔ requires additional public support for investments
- Beyond quantitative price spreads, the perception of **visibility and stability of** prices is key
- This is NOT a fatality : price ratio close <2 in Sweden, Austria, Bulgaria, Netherlands, Switzerland…

« Thrive & dive : solar power development and market impacts





- Share of solar is increasing fast, but **market value is plumetting**: 50 % capture rate in DE over summer 2024 !
- Market impacts of solar generation are increasingly visible, **even in markets with relatively low penetration levels** (FR)
- Spot market price spreads are surging fast and require rethinking of products, economic models and consumption patterns

Understanding flexibility needs (1)

Daily flexibility

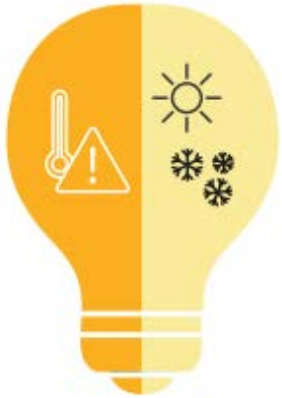
Morning and evening demand peaks

Day-night generation difference

Weekly flexibility

Weekday-weekend demand difference

Wind pattern fluctuations



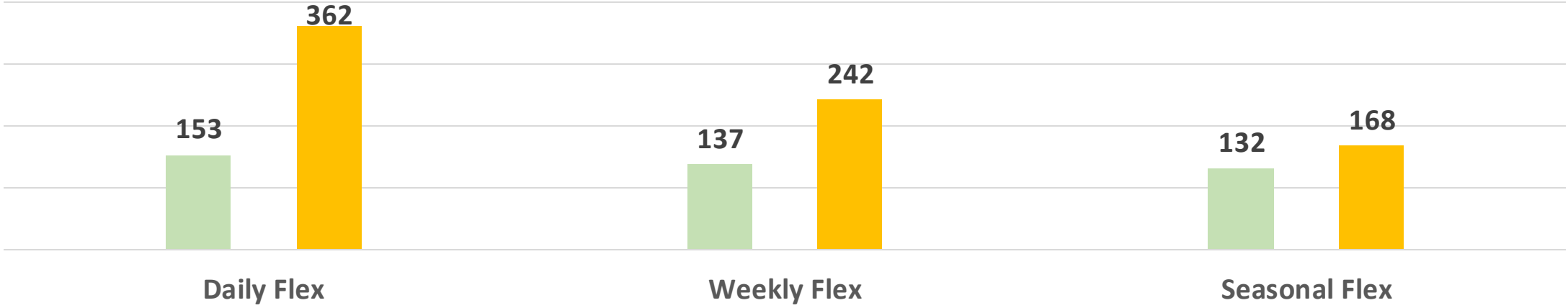
Seasonal flexibility

Heating-cooling periods

Seasonal weather patterns

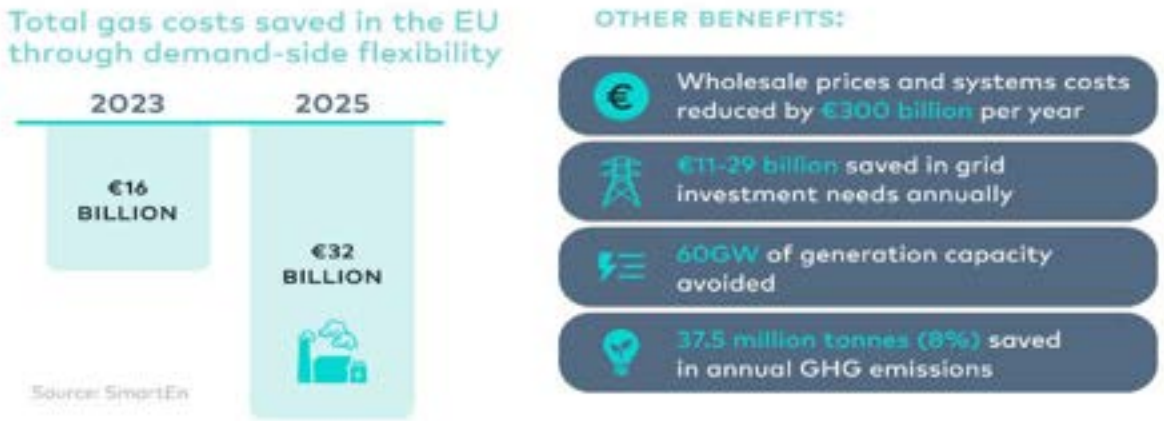
Evolution of flexibility needs between 2021 & 2030 in the EU in TWh (EEA/ACER)

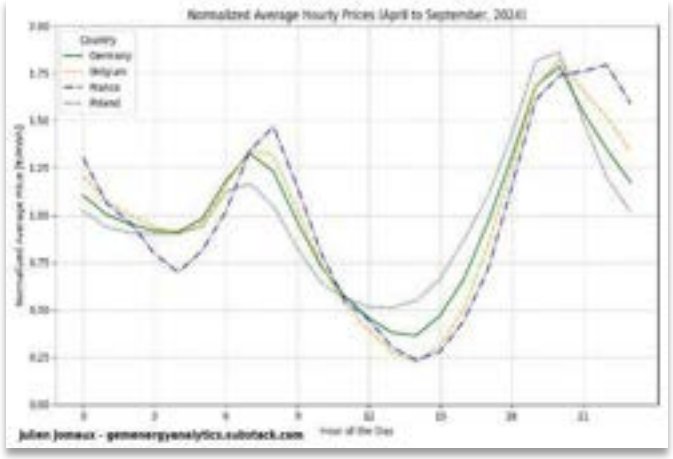
Source : ACER/EEA 2023



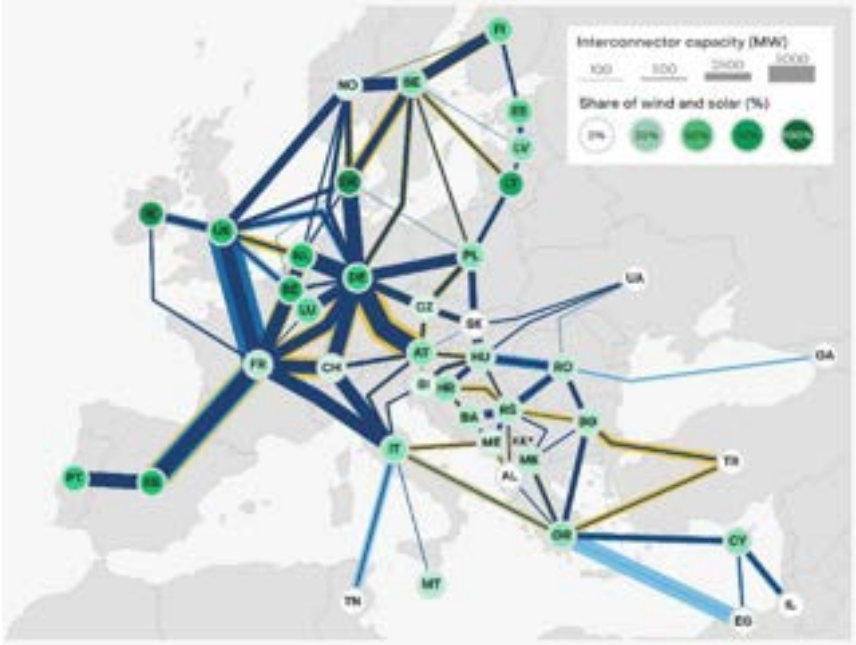
Developing flexibility at all levels

Results of SmartEN / DNV Study (2022) : benefits of demand-side flexibility for Europe



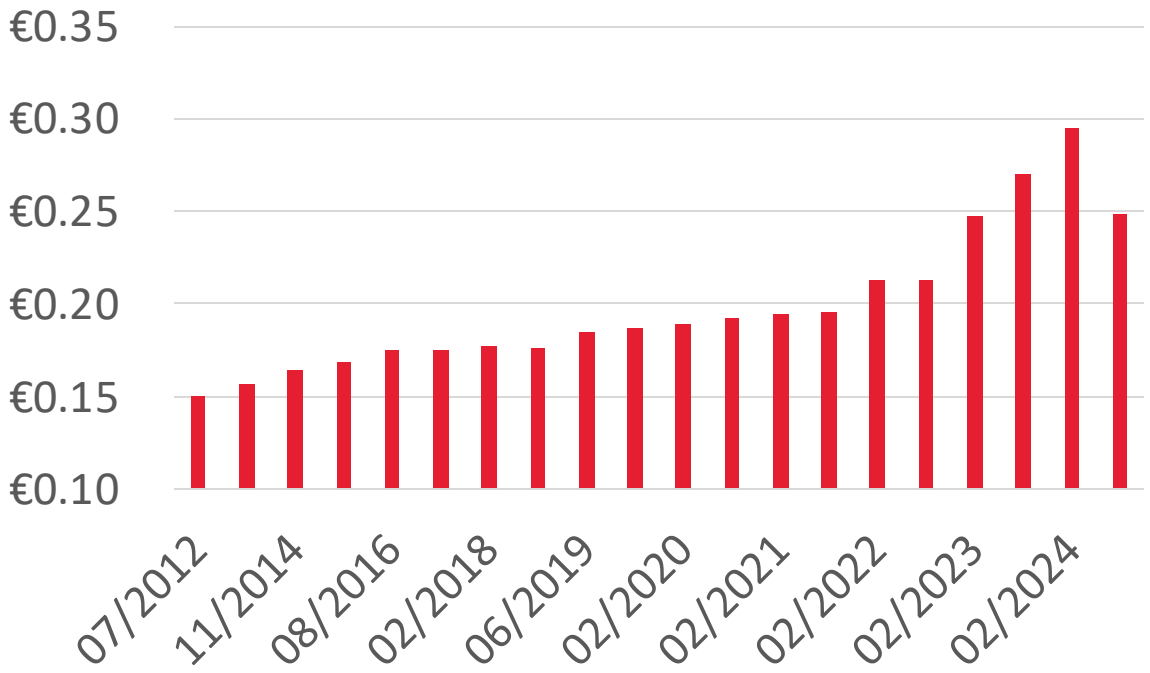


2030 Reference grid and NECP+ system needs (in yellow) (Ember 2024)



Recent evolutions of retail prices in France

Average electricity prices for households in France since 2019

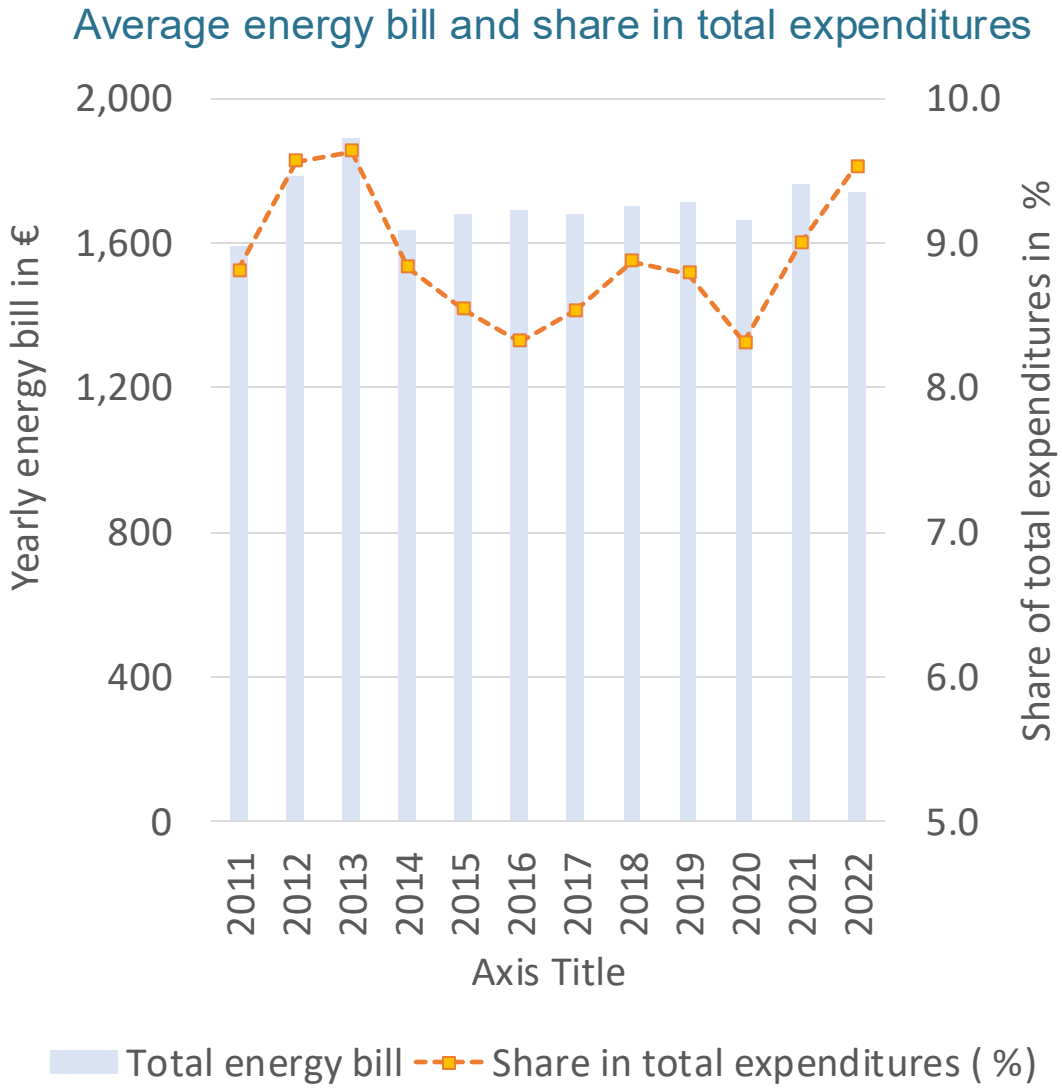


- **Regulated tariffs for electricity have doubled between 2012 and 2024** (+60 % since 2019)
- Average gas prices increased by 50 % since 2019
- Recent decreases for both electricity --15 %) and gas prices (-15 %)
- Current price levels (including fixed share):
  - 25 cents per kWh for electricity
  - 14 cents per kWh for natural gas

- Ratio of 2:1 between electricity and gas prices ➔ in theory sufficient to foster electrification… but not at the required level (+10-15 TWh per year !)
- But general perception that uncertainty on future electricity prices remains much higher

Energy poverty in France

- 3,2 million households (11 %) spend more than 8 % of their revenues on energy (housing & transport)
- 75 % of households reduced heating to save money and 30 % declare that they suffer from the cold
- 4,8 million households currently benefit from the energy cheque (average value of 150€ per year => 9% of annual bill)



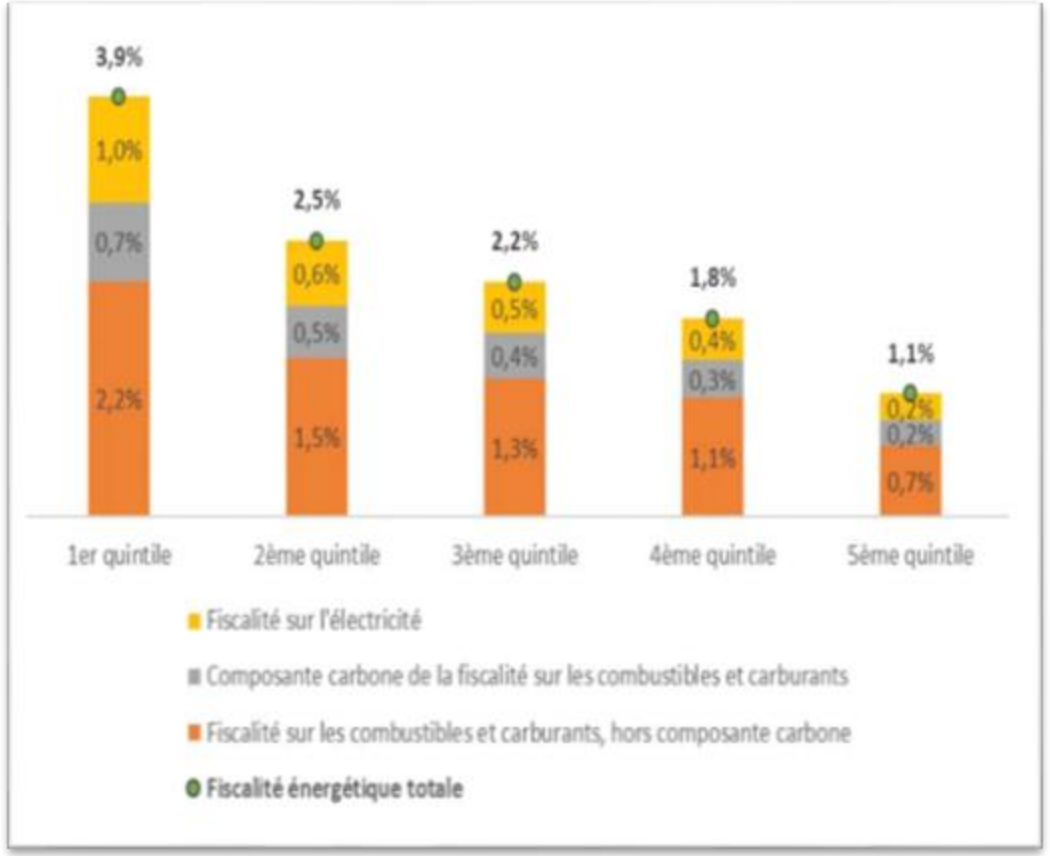
Social justice & low-carbon transition : challenges for the future

Several factors might push energy prices up :

- **ETS 2** :+10-15 % on current prices (up to 200-600€ per year)
- **White certificates** (up to +150 - 500€ per year)
- **Biogas generation certificates** (up to 50€ per year)
- **VAT** (applied on all other taxes at 20 % rate)
- Evolution of **general energy tax**

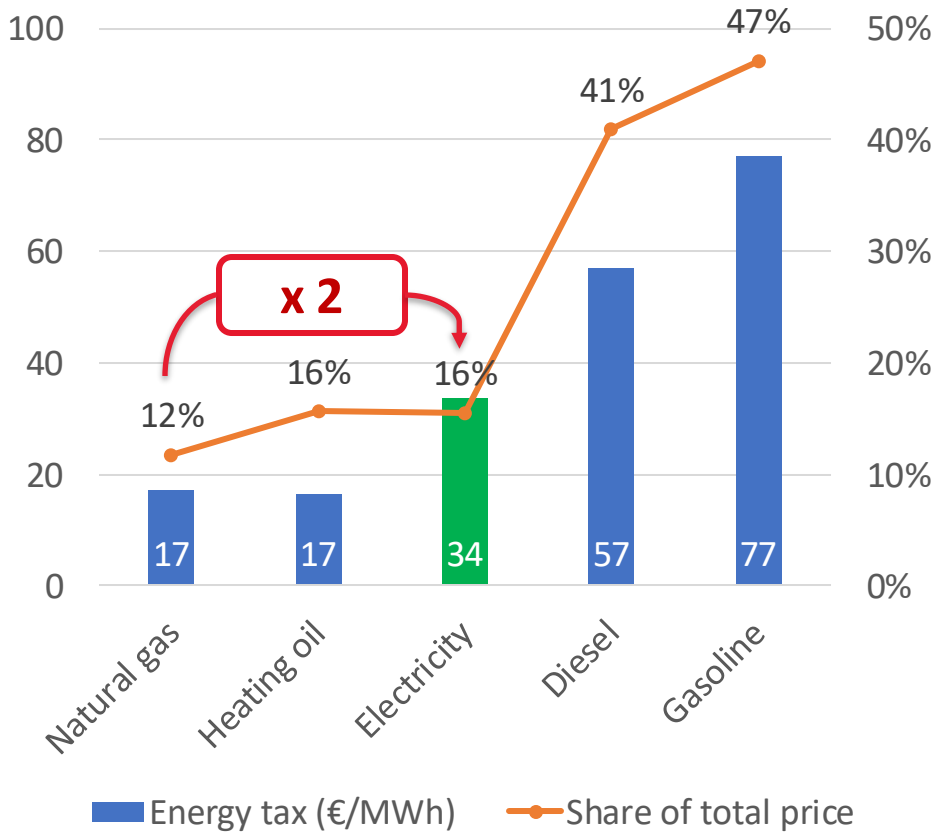
- **Regressive nature of energy taxes :** they have a higher impact on low-income households
- Clear need to **address energy taxation on a systemic level** rather than one by one !

Share of energy taxes in total revenues of households in 2021 according to their annual income

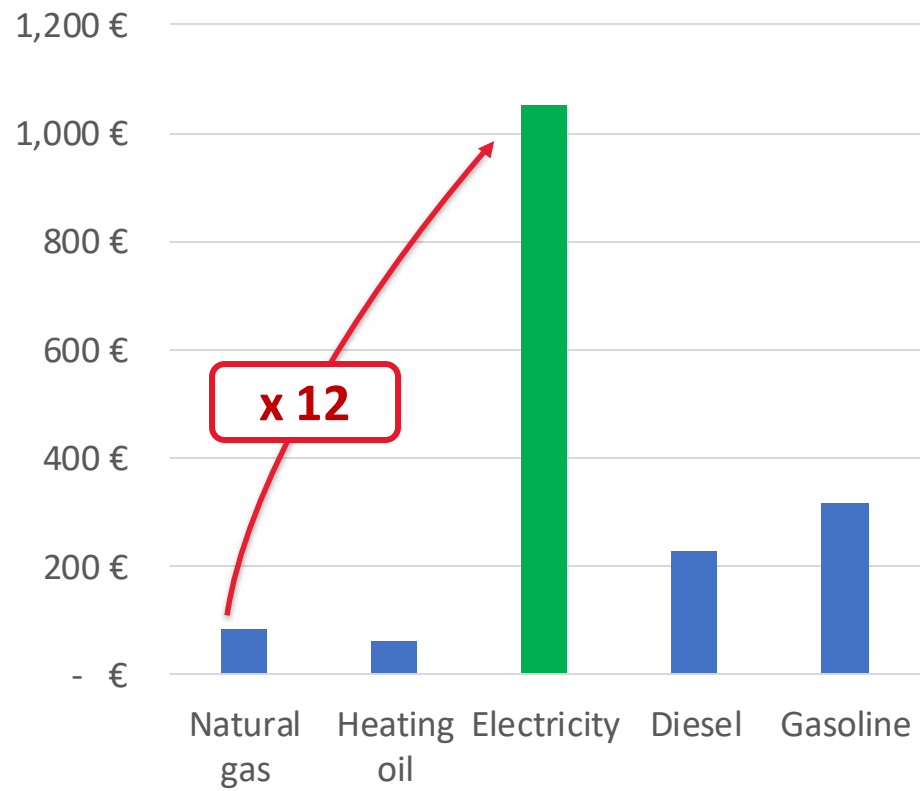


The need for a more coherent taxation system: the French case

General energy tax (€/MWh) and share in average price



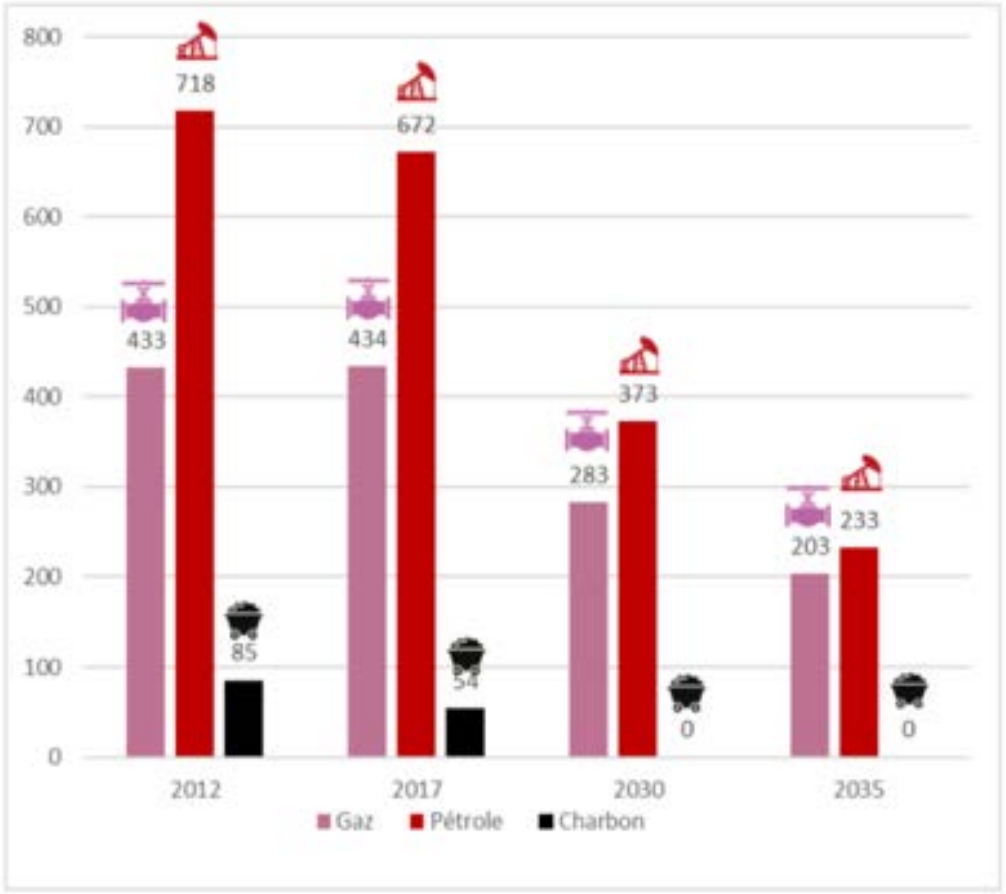
General energy tax per ton of CO2 emitted



- *At current levels, electricity is taxed twice as much as natural gas per MWh, 12x more per ton of CO2…*

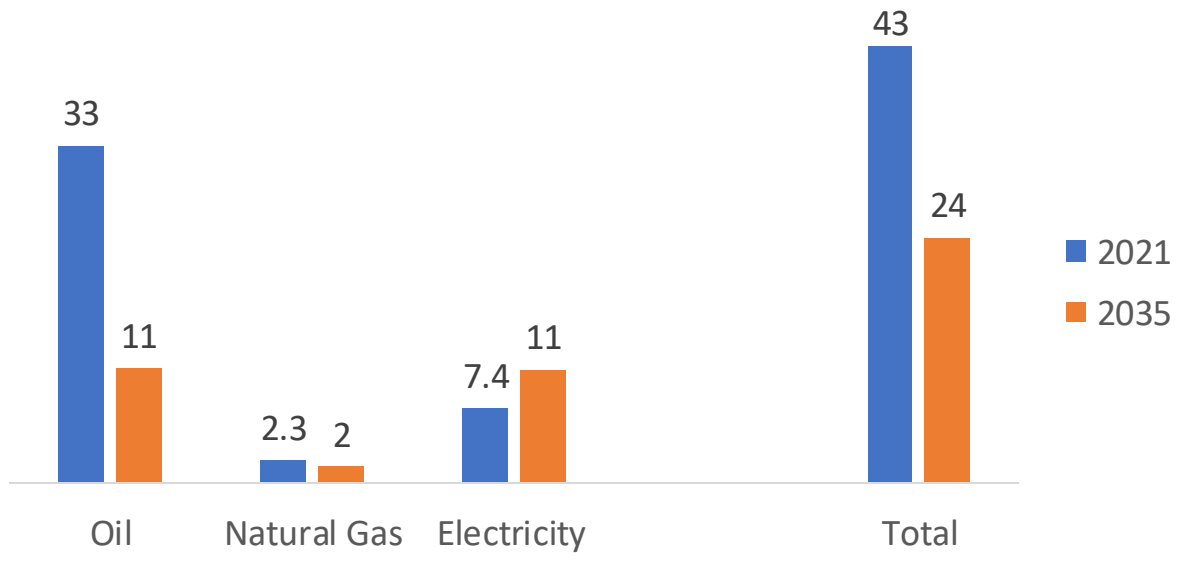
Fiscal revenues and the decarbonization : towards a massive funding gap ?

Final energy consumption of fossil fuels in France (TWh) - reference trajectory until 2035



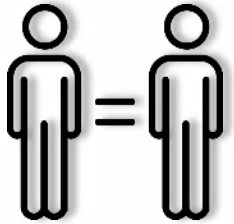
- National targets imply strong reduction in fossil energy consumption by 2035
- This might generate **huge losses (~20 Bn€) in taxation revenues** (slightly compensated by increase in electricity consumption)

Estimation of energy taxation revenues for 2021 & 2035 (€ Bn)



Key challenges for the tariff shield during the energy crisis in France

Targeting (consumer groups and energies)



Social justice: equity vs equality

(In)coherence with green transition (fossil subsidies)

What is the « right » price level ? (based on what criteria) ?

High public cost (and crowding-out effects)

Reversibility of fiscal measures over time ?

Coherence with EU law

Sustainability over time?