Europe's state of affairs in climate and energy policy: Where do we stand and where are we headed?

Briefing Note

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Background

The energy crisis and the consequences of the Russian invasion of Ukraine on Europe's energy supply have influenced the course of the European climate and energy policies. Currently, we are witnessing a dual perspective on the state of debates in the climate and energy space: on the one hand, despite these crises, political negotiations on the already envisaged package of climate and energy laws (Fit for 55) have continued in order to deliver the expected outcomes. Moreover, the above-mentioned crises have led to new legislative proposals, such as the Net-Zero Industry Act and the Critical Raw Materials Act, that complement the ongoing efforts under the European Green Deal. On the other hand, there is still a series of political disagreements at the level of the Member States that are holding back the implementation process of some of the key legislative proposals. In addition, there is increasing political pushback from conservatives wishing for a break in regulation. Given these circumstances, where do we currently stand in climate and energy policy? Can we really talk about the acceleration of Europe's climate agenda? Are we moving too fast or too slow?

Recent political developments under the complex Spanish presidency

Spain's presidency of the EU Council is intricately intertwined with the snap national general elections. Spain will take over the six-month rotating presidency of the EU Council on 1 July. And three weeks later, it will hold general elections originally scheduled for December of this year. This is not an exceptional case, as France, for example, held both rounds of its presidential elections last year during its EU presidency. Nevertheless, it could lead to a change of government in Madrid at the beginning of the "golden presidency", so-called because it is the last presidency under which the EU institutions will be able to work at full capacity and close the biggest legislative files before the end of term. Spanish Prime Minister Pedro Sánchez presented the four key priorities for the presidency: promoting the reindustrialisation of Europe; moving towards ecological transition; consolidating the social pillar; and strengthening European unity. At the same time, he downplayed the prospect that snap elections would disrupt Spain's upcoming Council presidency. He reassured the public that the elections will not have an impact on the Presidency.

Nevertheless, the political impetus required to move forward and achieve consensus on important EU dossiers could be affected. This is all the more true should a repeat election become necessary due to unclear majorities, as already happened in 2019. Negotiations on core areas might have to be put off until next year. Many hopes rested on the Spanish Council Presidency to conclude important legislative dossiers such as the electricity market reform. In the worst case, many dossiers would have to be postponed until the next Council Presidency.

The subsequent Belgian Presidency, however, will be dominated by the election for the EU Parliament as well as by its regional and federal elections. This reduces the Presidency's time to effectively push forward its dossiers to a maximum of only three months.

Below are some of the most challenging legislative dossiers that are foreseen to be closed during the Spanish presidency, compiled by Politico:

- **The Critical Raw Materials Act,** proposed in March, is meant to shore up domestic extraction, processing, and recycling and to diversify imports of these key materials. Brussels wants to catch up fast in the global race for raw materials, and the goal is to reach a deal under the Spanish presidency. EU institutions are pressing ahead and negotiations are already in full swing. Countries generally agree on the need for speed on this file but they don't all see eye-to-eye on what to prioritise. While resource-rich countries like Portugal, Sweden and Spain are emphasising easing conditions for domestic mineral extraction, countries with fewer reserves are placing greater emphasis on boosting trade relationships and recycling raw materials. The timeline is extremely tight but there is a widespread sense of urgency to move forward with this particular file.
- **The Decarbonised Gas Package** has been proposed to help replace polluting natural gas with a new generation of greener fuels – stepping up both domestic production and imports to use 20 million tonnes of hydrogen by 2030. National governments agreed on a common position in March of this year. Political negotiations have now begun, but tricky technical details around "unbundling" (the separation of energy supply and generation from the operation of transmission networks) and who owns the infrastructure versus who provides the gas need to be clarified. The package came close to being derailed by a row over nuclear-generated hydrogen, the position heavily promoted by France. The hydrogen and biofuels lobbies are pushing for a speedy settlement, warning Europe is falling behind the U.S. and China. EU Parliament officials say they expect the package to be finalised during the Spanish presidency.
- **The reform of the EU's electricity market design** has been launched by the EU Commission in March and aims at making electricity bills less dependent on fossil fuels and accelerating the deployment of renewable energies. That was a key win for interventionist countries, including Spain, which had long pushed for a revamp, even if it ended up being more superficial than some had anticipated. Technical discussions among EU countries have so far progressed well, though they have left some of the thornier issues outstanding, including whether specific types of state subsidy schemes for new renewables investments should be made mandatory. Debates over the file have become less polarised than some had expected, partly because all sides see something they like in it, while industry has praised the Commission's proposal as broadly balanced. Interventionist and liberal countries still have some gripes, though, including whether capacity mechanisms – incentives to ensure that peak demand generators stay in reserve during low demand – should be reformed and whether governments can unilaterally impose windfall levies on highly profitable energy firms in times of crisis. Nevertheless, countries on all sides of the debate aim to close a deal by year end. Plus, having been the first to call for this regulation, Spain will be especially keen to shepherd it through to completion.

Targets vs infrastructure

Europe has set a clear vision in terms of targets to be reached in its climate and energy policy. Overall, it aims to reduce the net greenhouse gas emissions by at least 55% by 2030 and become climate neutral by 2050. And these are only the overarching objectives, as the list of targets has been recently updated with a series of new ones for different sectors:

- A revised **energy efficiency** target: the EU will have to cut its energy consumption by at least 11.7% by 2030.
- A provisional political agreement to raise the share of **renewable energy** in the EU's overall energy consumption to 42.5% by 2030 with an additional 2.5% indicative top-up that would allow it to reach 45%. Moreover, the provisional agreement sets an indicative target of at least a 49% renewable energy share in buildings in 2030. It provides for a gradual increase in renewable targets for heating and cooling, with a binding increase of 0.8% per year at the national level until 2026 and 1.1% from 2026 to 2030.
- Binding targets for **green hydrogen** use in industry and transport: 42.5% of hydrogen used by industry by 2030 must be renewable, rising to 60% by 2035; and for transport, with either a share of renewable energy within the final consumption of energy of at least 29% by 2030, or a greenhouse gas intensity reduction of at least 14.5% by 2030.

Setting targets is of course necessary as it gives perspective and a clear policy direction. But what about the practical elements that come with this approach, such as, for example, the rollout of the necessary infrastructure? And here is where the challenge gets tricky. In the case of hydrogen production and supply, the market for it is currently building up and the question of interconnectivity not only within, but also outside the EU with external suppliers, still remains up for debate on how to best construct and connect the routes. Furthermore, in terms of renewable energy expansion and development, Europe is still lagging behind in the deployment of the necessary electricity grids, with investments falling short of what is needed by 2030 and beyond. The European Scientific Advisory Board on Climate Change concluded that **the current approach to grid infrastructure planning does not consider the transformational changes that lie ahead and are necessary to meet existing 2030 and 2050 climate objectives**. That is why when praising the increase of climate and energy targets, we shall always keep in mind the practical aspects that have a direct impact on their completion.

Funding remains Europe's Achilles' heel

Last year, the Commission announced its plans to come up with an ambitious financial proposal to support the EU's industrial policy and finance multi-country projects of European importance for the green transition. It has launched the idea of establishing the so-called EU Sovereignty Fund, which was meant to provide substantial means to finance ambitious green and innovative projects. Fast forward almost one year later – what actually happened? In short, there is no more EU Sovereignty Fund, at least for now. Instead, earlier this month the Commission proposed **STEP – the Strategic Technologies for Europe Platform,** which is supposed to help preserve EU competitiveness in clean tech, deep tech, and biotech. In her address, EU Commission President Ursula von der Leyen called this instrument a *"targeted and limited proposal for the absolute must",* which practically means that it is an instrument limited in scope and so far without major impact. The Commission is requesting €10 billion of fresh money from Member States. To fill up the new instrument beyond this amount, the

Commission wants to redirect existing EU funds, aiming for an investment capacity of a maximum of €160 billion. More details are not yet available – but it is becoming clear that the current amounts to support clean tech development on European territory are substantially lower compared to the US IRA, for example. At the same time, the Commission highlighted that STEP will be the precursor to a fully-fledged Sovereignty Fund that would be created in the future. However, a more concrete deadline has not yet been announced.

Under these circumstances, it is clear that currently the EU's industrial policy remains to be financed nationally, putting pressure on countries with little budgetary room for manoeuvre, increasing imbalances in the EU and jeopardising the integrity of the EU single market. Furthermore, there is no "political appetite" among Member States for increasing the EU budget, and with EU elections coming up next year, no new EU funding scheme is foreseen to be established anytime soon.

Furthermore, the debate on sufficient financial means does not stop here. In its recent report, the European Court of Auditors highlighted that **EU countries are vague in their plans to meet climate targets and, due to a significant financing gap, could risk not meeting the EU's objective of reducing emissions 55% below 1990 levels by 2030**. EU auditors expressed specific concern about a lack of financing to reach the bloc's 2030 climate objectives, particularly from the private sector. The EU has earmarked 30% of its budget until 2027 to reach its climate goals, or about €87 billion annually. The auditors point out that this is less than 10% of the total investment needed to reach the 2030 targets, estimated at around €1 trillion per year, including approximately €800 billion of redirected fossil investment and around €180 billion annually of additional green capital investments. Low EU-level funding means that the largest part will need to come from national budgets and significantly from private sector funds. But measures outlined by EU Member States in their National Energy and Climate Plans (NECPs) are currently too vague on financing. The auditors warned that the EU only managed to reach its 2020 climate goals thanks to the 2008 global financial crisis and the more recent COVID-19 pandemic, which triggered a sharp drop in economic activity and related greenhouse gas emissions and it shall not bet on yet another crisis to achieve a drop in terms of greenhouse gas emissions.

Are we moving too fast or too slow?

Despite the recent political agreements that have been reached on some of the key legislation, like for example the provisional agreement to raise the share of renewable energy in the EU's overall energy consumption to 42.5% by 2030 (with an additional 2.5% indicative top-up that would allow reaching 45%), the **EU actually needs to accelerate** the implementation of the European Green Deal if it is to achieve climate neutrality by 2050.

According to the report of the "European Climate Neutrality Observatory", **while measures introduced under the European Green Deal are all going in the right direction, they are not sufficient to reach the EU's climate objectives.** Their findings highlight that overall the EU is found to have successfully set the course toward a greener future, but it will need to pick up speed when it comes to implementation. Among 13 analysed building blocks, only governance is on track and electricity comes second, however with shortcomings in fossil phase-out and grid build-out. Progress in the remaining 11 building blocks is either deemed "too slow" or "far too slow", be it in clean tech, industry, mobility, climate adaptation or the just and inclusive transition. The researchers acknowledge the numerous new policies that have been introduced since the launch of the European Green Deal, but also warn the EU against complacency.

From the perspective of the EU regulatory assessment itself, **the European Commission is expected to publish its own first assessment of progress made on climate neutrality in September 2023.**

European Green Deal 2.0: what is on the horizon?

With the 2024 EU elections approaching, the discussions around the next European Green Deal (EGD) framework have already started. Stakeholders are eager to outline their vision of how the EGD framework could be strengthened. For example, the European Committee of the Regions, in its opinion, calls on the Commission to revise the Green Deal with a view to including health and gender dimensions more structurally and responding better to social and territorial needs. Furthermore, it also stresses that the implementation of the EGD happens at local and regional levels. This is why the EGD needs to be local-proofed and adapted to a new governance framework where cities, municipalities and local governments would have a policy framework that is consistent and aligned with the national and European levels.

Another angle of the debate is dedicated to the “beyond growth” concept, where several think tanks, NGOs, civil society and academia representatives gathered in May in the European Parliament for the Beyond Growth 2023 conference, where they were calling on the EU institutions to adopt better measures that will deliver more social justice and cohesion, and move beyond the GDP indicator alone.

The social dimension of the EGD also remains to be strengthened in the 2.0 framework. In recent years, there has been vocal criticism from stakeholders that underlined the fact that the EGD is still lacking a strong and forward-looking social dialogue with all the partners and practical proposals on strengthening the voice of workers. Moreover, the Social Climate Fund will start operating as of 2026, to support vulnerable households’ integration into the new emissions trading system for buildings, road transport, and fuels. Scepticism over the foreseen budget of €65 billion (for the 2026–2032 period) has been expressed early in the debates. It is already clear now that a lack of sufficient compensation will incite social unrest once the new emissions trading system starts working. This is another event that will once again spark some heated discussions around the relevance of the social agenda in EU policymaking.

Last but not least, energy insecurity provoking high volatile prices and industrial policy remain the biggest challenges to be addressed by the new EU officials in the EGD 2.0. The currently evolving complex geopolitical context is testing out Europe’s industrial capacity and energy security strategy on the long term. So far, debates around these issues have been initiated at different levels, including European and national ones. But proposals like the Net-zero Industry Act or the recent EU institutions’ joint communication on a European Economic Security Strategy are only the very first steps that require a broad range of concrete implementing measures yet to be conceived.

Conclusions

The climate and energy space are becoming more challenging and demanding at the same time, considering the numerous crises that Europe has to navigate. The role of pragmatism is becoming increasingly important and achieving balanced and practical political compromises is of utmost urgency in order to help advance Europe’s efforts in reaching climate neutrality.

There is a certain cloud of uncertainty hanging over Europe in terms of potential outcomes of the upcoming EU elections and the new set-up of European leadership. Nevertheless, it is clear that despite numerous challenges, the speed of innovation, implementation of legislation and set-up of practical projects on the ground must be accelerated in order to keep up with the envisioned targets. There is no time for the emergency brake – now is the time for a turbo regime.

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