Election clouds over Europe:
What is on the horizon for climate and energy policies?

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Background

Europe is preparing for the next political mandate. And this one is going to be different. In 2019, the EU launched the European Green Deal and has put climate change front and center. But the state of affairs has significantly changed since then. The pandemic hit, Russia invaded Ukraine, energy costs spiked, the far right surged, and major shifts in the geopolitical landscape took place, where the ongoing Chinese and American competition is pushing Europe towards defining its approach when it comes to industrial competitiveness. The European Green Deal delivered under pressure of these crises. Nevertheless, there are important aspects which remain unaddressed and are now becoming more pressured, such as the social and industrial ones. How is the EU going to position itself? What is on the horizon for climate and energy policies? And last, but not least, is there a plan?

So far, so good?

In 2019, the von der Leyen Commission designed the European Green Deal as Europe's new growth strategy. Despite the political storm caused by the multiple crises mentioned above, the EU was still able to deliver several legislative packages that aimed to decarbonise the energy sector by 2050. Concretely:

- In 2021, the EU decided to make climate goals legally binding by adopting a European Climate Law that also sets an intermediate target of reducing net greenhouse gas emissions by at least 55% by 2030.
- The so-called "Fit for 55" - a package of 13 legislative proposals designed for delivering the EU's 2030 climate targets - was finalised in 2023. Some proposals in this sense included: the Revision of the EU Emissions Trading System (ETS) and the setup of a new ETS for buildings and road transport, the Carbon Border Adjustment Mechanism (CBAM), an amendment to the Renewable Energy Directive and an amendment of the Energy Efficiency Directive, etc. Particularly, the Renewable Energy Directive (RED), set a goal of at least 42.5% renewables in the EU energy mix by 2030, and the Energy Efficiency Directive (EED), established a binding EU-joint effort of 11.7% reduction in energy consumption by 2030. These are just a few examples of concrete decisions that have been made as part of this "Fit for 55" package.
- Another important legislative milestone is the "Gas Package" which set up the rules for the deployment of renewable and low-carbon gases like biomethane and hydrogen in the energy sector, with additional new provisions to mitigate methane emissions.
- The Revision of the Electricity Market Design Rules and the Regulation on Wholesale Energy Market Integrity and Transparency (REMIT) will help accelerate the deployment and integration of more renewable energy sources in the energy system, enhance

protection against market manipulation, and promote the stability and predictability of energy prices.
- In parallel, the revision of the European Performance of Buildings Directive (EPBD) concluded with the establishment of a phase-out for fossil heating systems in the EU by 2040.
- For the circular economy, the EU created a new framework for circularity in product design and introduced new requirements, like the digital product passport and the right to repair. Products like textiles and furniture will all face design and information requirements under the Ecodesign Regulation, whilst new provisions banning greenwashing will apply as of September 2026.

And these are only a few examples of different laws which have been adopted to decarbonise various sectors of the EU economy. Indeed, significant progress has been made despite some challenging political drawbacks and the opposition of conservatives to certain initiatives under the European Green Deal. One example in this sense is the EU Nature Restoration Law which was proposed by the European Commission in 2022. At first, this initiative has been seen as a ground-breaking one, as it was the first legislative proposal that foresees legally binding targets and deadlines for restoring land and sea ecosystems. However, the conservatives in the European Parliament have led a fierce opposition against it. Recent protests by the farmers in capitals across the continent have increased the political momentum of postponing or watering down Europe's progressive climate targets on this hot political battleground. After several clashing voting rounds in the Parliament, a flimsy compromise has been reached in the end which has heavily watered down the requirements for national governments compared to the original text as proposed by the European Commission. Namely, the target for reviving at least 30 percent of drained peatland has been framed from mandatory to voluntary for farmers and private landowners and specific targets for greening cities were also scrapped in the final text. Therefore, it remains uncertain whether the EU Nature Restoration Law will produce practical and tangible effects in the coming years. This situation already offers us a glimpse into the potential political polarisation over the upcoming legislative proposals.

All things considered, for the next mandate, there is still work to be done in other areas that are currently up for debate between national governments and EU representatives. In this sense, the social and industrial pressures are becoming more evident.

Industrial policy takes priority on the next European Commission's agenda

In this (geo)political storm Europe has revived its debate on industrial policy. The discussions about a common EU industrial policy have been frequently ongoing. However, the recent geostrategic industrial sprint between the US and China has made it clear to Europe that concrete actions must follow in this direction. On the one hand, the US came up with a massive combination of grants, loans, tax provisions, and other incentives to accelerate the deployment of clean energy and manufacturing through the adoption of IRA - the Inflation Reduction Act – in 2022. On the other hand, China is also keeping up the pace by heavily subsidising its domestic industries, especially in sectors such as electric mobility or solar power. As shown by a recent study conducted by the Kiel Institute, estimates suggest that China's overall industrial subsidies range between three to nine times higher relative to GDP than that of other OECD countries such as the USA or Germany. This situation is pushing Europe towards defining its approach when it comes to industrial competitiveness. On the political level, there is a clear agreement that Europe must keep its key industries and thus have a competitive industrial policy. Some attempts have been made in this mandate via the launch of the Green Deal Industrial Plan, which aims to scale up the EU's manufacturing capacity for the net-zero technologies and products required to meet Europe's climate targets and the adoption of the Net Zero Industry Act (NZIA), which sets a specific target of manufacturing at least 40% of the net-zero technologies within the Union by 2030. Even though these measures provide a policy orientation with a clear list of goals and net-zero technologies, they fall short on the financial and practical sides. On the one hand, there is no agreement yet on adequate financial support for the transformation of the industrial sector at the EU level. Here again some attempts have been made. In 2022, Ursula von der Leyen proposed the creation of a new European Sovereignty Fund, which after months of political negotiations has been transformed into a "scaled-back version" of what was initially proposed – known today as the STEP – the Strategic Technologies for Europe Platform (STEP). Member States were unwilling to set up new funding for the initiative, invoking the argument that there was still unused money in the Next Generation EU Recovery Fund. So, for now, STEP's goal is to leverage funding from existing European programmes and cohesion policy funds towards investments in critical technologies. On the other hand, there is little progress when it comes to the practical instruments that can be used to accelerate European manufacturing.

Meanwhile, time is not on Europe's side, as the magnitude of challenges is profoundly increasing. For example, the electricity costs for the European primary aluminium production – which on average represent up to 40% of European primary aluminium production costs - have increased by 400% over 2021-2022, according to European Aluminium. As a consequence, half of Europe's aluminium smelters have been forced to curtail or halt completely their production. Moreover, the European Trade Union Confederation (ETUC) also estimated that nearly one million manufacturing jobs have been lost across the continent over the past four years. Ultimately, is Europe able to keep up with the ongoing subsidies race? This is highly problematic, as the debate is two-folded in this sense. On the one hand, not all Member States have the same capacity to carry on such initiatives. Recently, Finland, the Czech Republic, Denmark, Ireland, and Poland led by Sweden expressed their criticism toward the EU's "over-reliance" on national subsidies to secure competitiveness in global markets. On the other hand, considerations are also highlighted when it comes to long-term subsidisation. The EU State Aid Temporary Crisis and Transition Framework will end in 2025. In reaction to Europe's energy crisis the framework allows otherwise illicit state subsidies, but as its name says, it is a temporary instrument which is linked to the energy crisis. Up to now it is largely unknown if the framework will be prolonged and if so, under which terms and for how much longer.

A major impulse to this debate has been already provided by Enrico Letta, the former Prime Minister of Italy, who presented to EU leaders on 18 April 2024 his report **on revamping the single market**. In this report, he suggested recommendations regarding the EU's energy market and how it can better respond to the current challenges. Since the above-mentioned EU State Aid Temporary Crisis and Transition Framework is coming to an end, one of the most discussed recommendation refers to the so-called "State aid contribution mechanism". According to Letta, this would help to prevent a subsidy race between national governments as it would require Member States to allocate a portion of national funding to financing pan-European projects and investments. However, some Member States may perceive this as a mandatory EU levy on national subsidies which politically speaking would make this recommendation unfeasible. Another issue in this sense is that "Europe does not have a federal budget able to subsidize specific sectors, and industrial policy largely remains under national control", as the German Marshall Fund explains.

Other measures listed in Letta's report include: the establishment of regional renewable auctions, supporting larger European funds for financing cross-border projects, and the creation of the Clean Energy Delivery Agency by 2027 that would act as a "one-stop shop" for companies, in order to provide tailored advice on permitting processes, certification, and funding schemes. Additionally, the Agency should oversee the EU funds, approve funding for cross-border infrastructure projects, and incentive financing for large-scale deployment of clean technologies.

Altogether, it is clear that the industrial debate is currently placed very high on the EU agenda ahead of elections. On top of the above-mentioned report, the two other **pivotal moments** that will determine Europe's next political priorities are also on the way**: the definition of the Strategic Agenda 2024-2029** (the central point of the European Council in June 2024) and the former European Central Bank chief Mario Draghi's **report on the future of European competitiveness** (which is expected to be presented at the earliest during the EU leaders' summit in June this year). Here, industrial policy will also play a role, along with priorities linked to defense, security, and competitiveness. Apart from this, as the energy crisis has shown when electricity prices skyrocketed, European industrial companies were confronted with higher and more unstable prices than their competitors across the Atlantic or in Asia. National governments responded with subsidies worth billions of euros to stabilise the prices. However, on top of this, what else could be done to help navigate the crisis? Deployment of more renewables, exploration of other pricing models, reinforcement of grids, etc. A debate on this matter must also take place. Ultimately, the outcomes of these discussions will outline the options that will certainly guide the next Commission in setting up the critical priorities in the climate and energy areas for the upcoming five years.

What else is "on the menu"?

- **The negotiation on the 2040 climate target will continue:** Following the publication of the 2040 climate target communication in February 2024, which recommends a 90% reduction in net GHG emissions by 2040, Member States will need to agree on this new interim target in the next mandate. In this sense, the new Commission will come forward with a legislative proposal revising the existing European Climate Law in the first half of its new mandate. So far, the 90% target has received a tepid reaction from national governments, who will debate more actively on it after the EU elections.
- **Carbon Capture, Utilisation and Storage**: The EU also plans to scale up the deployment of CCUS which will be required for the reduction of emissions in hard-to-abate sectors - like cement and chemicals. The current Commission already provided a hint in this direction with the publication of its communication on Industrial Carbon Management in February 2024. However, more concrete proposals in this direction will be tabled during the next mandate.
- Work on the **circular economy** lies ahead. The Waste Framework Directive intended to reduce food and textile waste will be picked up when a new Commission will be formed. Furthermore, the work on the Green Claims Directive, that aims to tackle greenwashing and protect consumers from misleading claims, is going to continue in the next mandate.
- The **chemical sector** will face increasing calls to clean up its production processes in the next term. The Commission failed to publish a much-anticipated revision of the EU's

lead chemical regulation REACH, and currently, there is pressure to ensure this is published in 2025. Furthermore, the debate will be extended to the universal PFAS restriction proposal that could ban over 10,000 per- and polyfluoroalkyl substances used in a wide range of products - from medical to electronics. Here the lobbying from industry is expected to be especially active in the coming years in order to keep PFAS used in critical applications like semiconductors.

What about the social agenda?

When it comes to social justice and outlining the social agenda for the energy transition, the situation remains rather foggy. On the one hand, with the launch of the European Green Deal, the Commission has emphasized the importance of bringing everyone on board and established the Just Transition Fund and the Just Transition Mechanism to ensure that "no one is left behind". Moreover, as the highly controversial new emissions trading system for the transport and building sectors - named ETS II - has been adopted, the Social Climate Fund has been put in place to guarantee that the most affected vulnerable groups, such as households in energy or transport poverty, are directly supported. On paper, it seems like there is already a system in place to tackle social unrest and the upcoming social challenges. Nevertheless, criticism persists and stakeholders view the current instruments as insufficient. Even with the setup of the above-mentioned Social Climate Fund (mobilising €86.7 billion for the 2026-2032 period), the perception is that this funding mechanism will not meet the real needs to deliver widespread renovations and installation of renewable-based solutions for energy-poor households. Moreover, as the ETS II will start operating in 2027, the CO2 price could lead to significantly higher costs for fuels like petrol or heating oil across the EU, hitting low-income households especially hard. Germany, for example, is currently debating the introduction of a pay-out of a per capita climate premium (Klimageld), which could provide relief when households have not yet been able to invest in efficiency measures or switch to fossil-free technologies. Financial support is also needed for poor households that will be heavily burdened by high CO2 costs. This raises some critical questions already that provide some hints into how the various instruments should be designed and who to address specifically: support everyone or only the low-income households? Moreover, other countries do not yet have a national carbon price system in place, or in general, this above-mentioned option of climate premium is not even on the agenda for public debate. Consequently, people there could be hit much harder. So, what would be the impact on social balance in this area? This remains an important decision to be addressed that will not simply go away after the elections.

Additionally, there are many other social aspects that will require action as the energy transition is gathering pace, like offering and developing economic perspectives for the regions that are or will be hit by the consequences of the transition; addressing the challenges of the labour market and promoting progressive skills policies that would adequately equip the workers for the new shifts not just in the energy sector, but also when it comes to the new circular economy model, etc.

Key messages for EU's next political mandate:

With the EU elections just around the corner and in the face of growing support for far-right political forces, it is more necessary than ever to reflect upon how to align the European Green

Deal with a truly social-ecological model. As the Member States are actively debating the next political priorities, we believe that it is of utmost importance to highlight the following aspects that must be embedded into the new EU agenda:

- **Greater coherency across social and ecological policies is needed**: it is essential to ensure that energy transition and social policy is not just a technocratic exercise, but a shared vision across Europe. This requires greater and much deeper involvement of social dialogue and trade unions that represent millions of workers in the EU, which would ensure that the upcoming climate and energy proposals are always taking into consideration the social aspect as well, and not integrated later on as a follow-up aspect that has not been simply included in the first place.
- **Providing clear industrial policy tools and adequate funding** to support European industries: under the current mandate, the EU has "tested the water" with its proposals for a new funding pool and laid out a policy framework that sets targets in order to boost its industrial competitiveness (as mentioned above through NZIA or STEP). This helped to identify the non-negotiables of certain Member States and understand which proposals, politically speaking, would not be feasible. However, as the competitiveness pressure is growing rapidly, the EU must lay down a reliable long-term policy framework with concrete policy instruments and financing tools that would help its industry to keep up with the ongoing (geo) political, trade, and economic race.
- **Reinforce workers' rights** in this new stage of Europe's industrial transformation. As it has been highlighted in the FES "It's all about jobs" study, the level of trade union representation is especially high in sectors that are losing importance, such as coal mining or automotive sector, for example. On top of it, these jobs are better paid compared to other sectors and correspondingly are more attractive for workers. The renewable sector, on the other hand, is considered a difficult terrain for the trade unions, partly for structural reasons. For example, many wind or solar energy companies are much smaller and their workforce is more difficult for trade unions to recruit and organise. In addition, they are often far less open or even hostile to union organising efforts. Companies should be aware that they benefit from the expansion of social rights of the workforce. In the growing competition for qualified workforce, employers must present attractive offers and working conditions. Therefore, tackling these challenges is of key importance to reinforce workers' role in the transition.
- **Stronger social conditionalities are needed:** as suggested by the above-mentioned FES study, a stronger link between public procurement and compliance with high social standards, social dialogue, collective bargaining autonomy and coverage is a powerful lever for improving social standards that has not been sufficiently used so far.
- **Combat energy poverty** and the burden of high energy prices by strengthening local participation, further supporting the involvement of citizens in taking ownership of their energy consumption via the spread and access to energy community projects.

Conclusion

At this point, it is clear that tough decisions must be made regarding the EU's strategic policy horizon. It is also certain that the practical and social aspects will become more critical. What will the industrial competitiveness deal look like? Will all EU countries be on board with the key points of reform? Will the Member States have enough political willingness to overcome their own taboos? An open and inclusive debate about trade-offs is needed and will inevitably become increasingly more complex and difficult, given the critical energy, geopolitical, and geo-economic transitions that we are facing. How these perspectives are reconciled or resolved – this remains to be seen in the coming months.

Reghina Dimitrisina
Competence Centre Climate and Social Justice
reghina.dimitrisina@fes.de