

# BACKGROUND DOCUMENT

INFORMAL MEETING OF ENERGY MINISTERS

## THE CONTRIBUTION OF THE ENERGY SECTOR TO THE NEW COMPETITIVENESS DEAL

15 – 16 JULY 2024, IN BUDAPEST

In the current international context of multiple challenges, where Europe is lagging behind in some aspects its global competitors, like high energy prices, lack of skills, productivity, it is vital to improve the productivity and thus the competitiveness of the Union and its Member States and to stimulate growth. It is in our common interest to address the effects of the difficult economic circumstances of recent years, such as high inflation, increased public debt, high energy prices and the fragmentation of international supply chains, and to put the EU economy back on an upward path.

On 17 and 18 April 2024, the European Council adopted Conclusions on a new European Competitiveness Deal<sup>1</sup>. The European Council welcomed Enrico Letta's presentation of his 'Much More Than a Market' high-level report<sup>2</sup>, and invited the Council Presidencies to take work forward on the recommendations and urged for a new European competitiveness deal.

To implement the new European competitiveness deal, the European Council called for work to be taken forward decisively and swiftly on achieving a genuine energy union, by securing the supply of abundant, affordable and clean energy, that serves the dual objective of pursuing European energy sovereignty and climate neutrality. This will require ambitious electrification using all net-zero- and low-carbon solutions, flexibility, and substantial deployment of and investment in grids, storage and interconnections.

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<sup>1</sup> <https://www.consilium.europa.eu/en/press/press-releases/2024/04/18/european-council-conclusions-17-and-18-april-2024/>

<sup>2</sup> <https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf>

In line with the request of the European Council a key priority for the Hungarian Presidency is to facilitate the adoption of a new European Competitiveness Deal to relaunch economic growth and create the conditions for sustainable growth, deepen the internal market, give priority support to small and medium-sized enterprises, promote the green and digital transition in partnership with European economic operators and citizens, foster international cooperation, and ensure job stability and sustainability.

Affordable energy is key to the competitiveness of the EU's industry. Efforts to ensure secure and adequate access to clean energy at globally competitive prices in the internal market will be central to better positioning the EU's industrial strengths during the transition.

The EU's ambitious climate and energy objectives can only be achieved if they go hand in hand with the EU's competitiveness and the security of energy supply throughout the green and just transition.

**The Letta report** emphasises that energy market integration is a cornerstone of the EU Single Market. Yet the recent energy crisis has exacerbated the divergence between Member States in electricity prices. This creates problems for energy intensive companies as well as for downstream industries, clean technology industries and SMEs in a number of European regions.

**“A step towards market integration and common action can deliver a more secure, affordable and sustainable energy system at the service of a modern industrial base.”**

The benefits of integration grow with the increase of renewables in the system, strengthening the value of its flexibility and overall resilience. Integrated energy markets ensure the deployment of new clean energy generation in the fastest and most cost-efficient manner possible. It also provides a good environment for the clean tech industry to flourish, fostering innovation in clean technologies and digital solutions for the energy sector. According to Mr. Letta, by leveraging its Single Market, Europe can make its diverse energy systems a competitive asset.

For this aim he recommends several steps that policy makers could take, notably:

- **Strengthen mutual trust among Member States and fully use the potential of an EU cross-border electricity market** for the cost-effective production and trade of clean energy. A stronger effort to eliminate barriers to interconnections enable competitive integrated electricity markets is vital for enhancing supply security, increasing flexibility, and mitigating price volatility. Cross-border cooperation and the possibility to procure flexibility and renewable energy auctions across borders is crucial for reducing costs associated with procuring flexibility and demand response across the Single Market. This cooperation would facilitate the integration of renewable energies, ultimately lowering system costs and consumer bills.
- **Robust, accessible and flexible energy infrastructure** is imperative to enable companies to have free access to energy at affordable and predictable prices. Regional collaboration, adequate financing and political support is key to accelerate the network development.
- **Enhancing the resilience of a more integrated, more digitalised and decentralised energy system.** This requires not only that the existing framework for securing critical energy infrastructure is strictly enforced, but also that cybersecurity measures are incorporated in procurement for new infrastructure or generation assets. The European Commission and the International Energy Agency have highlighted the significant concentration in the value chains of several critical materials, which poses a potential bottleneck for Europe's transition to a cleaner energy system. It is critical to intensify efforts and explore diversification strategies.
- **Adding speed and simplicity to the energy Single Market** in order to meet the 2030 targets and the overarching goal of climate neutrality. This implies a broader and faster application of clean technologies across the industrial landscape, including hard-to-abate sectors and an expansion of clean technology manufacturing. Yet, the energy crisis has led to setbacks in energy-intensive industries such as aluminium, cement, steel, refineries, and chemicals. These sectors are pressed to transition to clean energy solutions and adopt new business models, but are confronted with uncertainties around the costs of decarbonisation technologies, access to capital, and the timely, scalable availability of these technologies. The EU should provide a supportive

ecosystem that makes it easier to embrace innovation and reduces the 'green premium' - the additional cost associated with green technologies.

- **To accelerate and facilitate access to different financing solutions** Mr. Letta proposes establishing a single executive entity to manage EU clean energy funding programmes and incentive schemes that would benefit companies and stakeholders. He also calls for a significant increase in the budget for the Connecting Europe Facility (CEF) for Europe for cross border infrastructure and for streamlined procedures. He also suggests to design a Clean Energy Deployment Fund to facilitate investment in cutting-edge technologies necessary for achieving net zero, which could complement the innovation fund.
- **Reporting obligations should be more streamlined and red tape should also be reduced** for companies, in particular for SMEs.

A new and stronger effort is also necessary to reduce fragmentation of standards and product quality requirements. The Commission has already identified priority sectors for standardisation, starting with cables and grid components where coordination and aggregation amongst Member States may be beneficial.

- **Furthermore, the European Investment Bank (EIB) could broaden the application of credit enhancement models, already pioneered in the wind sector, to other industrial realms.** Initiatives led by the EU to foster collaboration and coordination among industrial players within a value chain, like industrial alliances, are essential for reducing the time to market of innovative technologies. Such measures are pivotal for Europe to navigate the challenges of dependency and position itself as a leader in the global clean tech industry.

**Ministers are invited to share their views on the following questions:**

1. Which recommendations of the Letta report would mostly contribute to the competitiveness of the energy industry of the EU?
2. What other measures, incentives or steps – not included in the Letta report – would be pivotal to support a new EU Competitiveness Deal for the energy sector building on the European Green Deal?

*Please limit your interventions to 2 minutes.*