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**NOTE**

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From: Presidency  
To: Permanent Representatives Committee/Council  
Subject: The future of energy policy in view of a genuine Energy Union  
- Exchange of views

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Delegations will find in Annex the Presidency background note on the future of energy policy in view of a genuine Energy Union in view of the TTE (Energy) Council on 16 December 2024.

## **Background document**

### **The future of energy policy in view of a genuine Energy Union**

The European Union is at a critical juncture in its energy transition. The challenges of decarbonisation, while ensuring affordable and clean energy, energy security and competitiveness define the agenda for the future.

In the recently adopted **Budapest Declaration on the New European Competitiveness Deal** the European Heads of State or Government committed themselves to building a genuine Energy Union characterised by a fully integrated and interconnected energy market as a matter of priority, through the decarbonisation of EU's energy mix and the supply of affordable and clean energy to all our citizens and businesses. It also envisaged urgent measures to address the situation resulting from high and volatile electricity prices in Europe and their causes.

For the EU to proceed with its energy and climate ambitions, it must address several challenges. Energy affordability remains a pressing concern, with volatile prices driven by geopolitical tensions, supply chain disruptions, and reliance on fossil fuel imports. These price fluctuations disproportionately affect vulnerable households, deepening energy poverty and threatening social cohesion.

The Budapest Declaration emphasised that affordable energy is vital to maintaining the EU's industrial competitiveness. Energy-intensive industries, in particular, face significant challenges as they transition to cleaner technologies while competing in global markets. Dedicated policy support will be crucial to help these sectors adopt low-carbon solutions without compromising their economic viability.

Mario Draghi, in his report on 'The Future of European Competitiveness'<sup>1</sup>, advocates a combined decarbonisation and competitiveness plan that would align all policies with the EU's objectives. Priority areas to be addressed include, first, lowering energy costs for end users by transferring the benefits of decarbonisation and accelerating the decarbonisation of the energy sector in a cost-efficient way, leveraging all available low carbon solutions.

A market framework that incentivises renewable integration, storage, and demand-side flexibility and market incentives should be aligned with the EU's climate and affordability goals. Renewables offer a path towards stabilising energy costs over the long term, but scaling their deployment requires that barriers be overcome in permitting, financing system flexibility and grid capacity. Simplifying administrative processes and working on cross-border energy projects will enable Member States to share resources more effectively, reducing overall costs.

Infrastructure is another key component of competitiveness. Enhancing interconnectivity between Member States will allow for more efficient energy exchanges, optimising resource use and reducing costs for consumers. A fully integrated and flexible energy market, supported by smart distribution grids, will provide the foundation for a more resilient and competitive European energy system.

Aligning market incentives with the goals of affordability and sustainability will provide businesses and households with more predictable energy costs, while supporting the transition to cleaner energy. Reducing energy demand via efficiency measures is one of the most cost-effective ways to lower bills and support climate goals. Meanwhile, investments in emerging technologies, such as hydrogen and energy storage, will strengthen Europe's leadership in clean energy innovation.

At the same time, the EU must navigate the complexities of integrating a growing share of renewable energy into its systems. Despite their potential to stabilise long-term energy prices, renewables require substantial upfront investments in infrastructure, grid developments, and storage solutions. Robust interconnections and modernized grids will also be crucial for sharing energy resources efficiently, and to avoid inefficiencies and regional disparities. As the EU transitions to cleaner energy sources, addressing these systemic issues will be critical to achieving a true Energy Union.

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<sup>1</sup> [EU competitiveness: Looking ahead - European Commission \(europa.eu\)](https://ec.europa.eu/economy_finance/eu-competitiveness-2018-2020-report_en)

In the next institutional cycle, the EU should continue working on the **completion of the Energy Union and the implementation** of the recently adopted enabling legislative framework, focus on boosting renewables, energy efficiency, attracting investment in the energy transition and bolstering our energy security, while ensuring technological neutrality. The legislative framework should be fit not only for the EU's ambitious energy and climate objectives, but also for the new challenges. A simplified and robust **governance** is key to guarantee the achievement of the Energy Union objectives in the most cost-efficient way, in partnership with the industry and other stakeholders.

In the first 100 days, the new Commission will put forward an **Action Plan for Affordable Energy** to help in bringing down energy costs for households and business and to support industries and companies through the transition as part of the Clean Industrial Deal. Initiatives to boost the roll out of **renewable energy and energy storage** and work on demand flexibility, as well as further implementation of the energy efficiency first principle is also envisaged.

Amongst these initiatives the Commission will submit an **Electrification Action Plan** to ensure that Europe's industrial transition towards net zero is powered by an energy system with homegrown, clean electricity and will look at the legal framework on **European Grids** to help upgrade and expand grids to support such rapid electrification and to speed up permitting, while remunerating those citizens who take part in the energy transition by producing or storing renewable electricity. To integrate a greater share of renewable energy, the barriers to flexibility should be removed and **energy system integration** should be promoted. Actions to decarbonise and integrate **the heating and cooling sector** should also be accelerated.

The vision of a genuine Energy Union is fundamental to securing the EU's future as a competitive, sustainable, and socially inclusive region. By addressing affordability through market stability, renewable integration and energy efficiency, the EU can deliver tangible benefits to its citizens and businesses. At the same time, aligning energy policy with broader competitiveness goals will ensure that the EU remains a global leader in clean energy innovation and industrial resilience.

*The Presidency invites ministers to share their views on the following questions:*

- 1. Which initiatives should be prioritised in the next legislative cycle to most effectively advance the Energy Union's objectives and deliver a secure, affordable, and sustainable energy future for all Europeans?*
  - 2. What short to long term actions and measures could the EU Action Plan for Affordable Energy include in order to bring down energy costs?*
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