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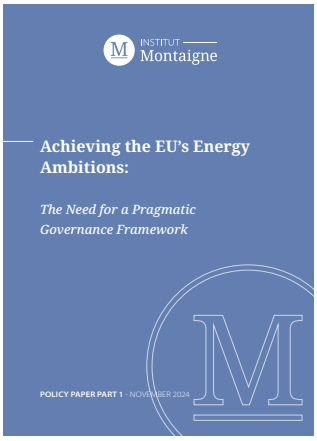
Achieving the EU's Energy Ambitions:

The Need for a Pragmatic Governance Framework



Energy will be at the heart of the agenda of the new European Commission, which is expected to officially take office in December 2024. Despite the 2019–2024 European mandate having been marked by successive economic, energy, and diplomatic crises within the EU, it succeeded in defining a **shared goal: achieving carbon neutrality by 2050**. There are key interim targets on the way to achieving this objective, such as a 55 percent **reduction in greenhouse gas (GHG) emissions from 1990 levels by 2030** through sector-specific policies within the "Fit for 55" legislative package. The transformation of Europe's energy system toward carbon neutrality is at the center of this initiative.

There are, however, several obstacles on the road to achieving carbon neutrality by 2050. Even if the goal remains uncontested, some EU Member States and European companies are raising concerns about the feasibility of the interim targets set for 2030 and 2040. Reaching these milestones will require a profound decarbonization of the European economy via a structural transformation of energy systems going well beyond the gradual expansion of tools such as renewable energy and energy efficiency. The challenge is significant, as highlighted by Mario Draghi's recent report, which estimates that an additional €800 billion per year in investments will be necessary to prevent economic decline in the EU. The energy transition must, therefore, fully incorporate the goal of industrial competitiveness.

The current approach has several drawbacks: It fails to consider all tools Member States could leverage – particularly low-carbon, non-renewable energy sources such as nuclear energy or carbon capture and storage – and partially neglects the importance of energy networks in the transition. Moreover, it runs counter to the principle of technological neutrality, which dictates that the EU should allow Member States the freedom to choose their methods for achieving climate

goals. These issues are generating political tension within the European Council, significantly complicating negotiations on interim targets, and depriving both public and private investments of the regulatory framework necessary for mobilization. By confronting Member States with unrealistic targets, this approach also risks undermining European cohesion. **Without an awareness of the need for greater flexibility of approach, the structural transformation of Europe's energy systems cannot be achieved**.

To overcome the risk of institutional gridlock in upcoming negotiations, a strategic shift toward a technology-neutral approach is essential. A comprehensive perspective on energy and climate challenges is crucial. According to the principle of subsidiarity, the EU should allow Member States the freedom to choose the means they deem most appropriate and best suited to achieve EU goals. **Addressing this challenge will require a revision of the EU's energy governance framework**. An approach based on reducing the carbon intensity of final energy, rather than setting targets focused solely on renewable energy, would provide Member States with increased flexibility. It would also improve the chances of meeting interim targets for 2030, which are already in jeopardy for most Member States.

This restructuring of governance should be accompanied by an equitable sharing of decarbonization efforts between Member States and the EU, which is responsible for upholding the collective commitment under the Paris Agreement. The complexity of these targets also requires enhanced planning based on forward-looking assessments at the national level. Such an approach would better integrate local specificities, such as energy demand, available resources, and economic context.

In this context, the Institut Montaigne presents a series of three action briefs to inform discussions within Member States and closely engage with the European Commission. Our aim is to outline the optimal coordination between the competencies of the EU and those of its Member States, focusing on pragmatism and effectiveness.

1. The first brief focuses on the **evolution of European energy and climate governance**.

2. The second will address **accelerating capacity deployments** (networks and low-carbon energy production).

3. The third will focus on **energy markets** and the new flexibility levers required for the European electrical system.

Governance, infrastructure, market: This is the threefold challenge the new European Commission must work on over the next five years.

Rooted in the European legal framework, this first action note proposes concrete technical and legal solutions to address the challenge of European decarbonization.

Summary of Proposals

Proposal 1

Shift from a logic of targets based on the share of renewable energy in final energy to one of targets focused on reducing the carbon intensity of final energy.
This framework would involve introducing a definition of low-carbon energy sources (a definition currently absent from European law), considering the entire life cycle. It would be based on a consistent methodology for determining the carbon intensity of final energy. The carbon intensity threshold qualifying an energy source as "low carbon" could be lowered over time in a planned manner. This would take into account the gradual reduction in the carbon footprint of production equipment accompanying technological progress.

Proposal 2

Initiate a reflection on a gradual phase-out, in several stages, of the final energy sources that emit the most GHGs (over the entire life cycle). It is understood that setting such dates would be likely to require unanimous adoption by the Council.

Such a framework, which would cover all sources and vectors of energy (electricity, heat, gaseous, liquid, and solid fuels), would help harmonize the various existing provisions in this area. It would also send a clear signal to the market.

Proposal 3

Technological neutrality must be the foundation of all European energy–climate legislation, including the revision of existing texts.

This principle is a direct consequence of the principles of subsidiarity and proportionality. According to these principles, European law must define a framework for action that minimizes infringements on Member States' competencies while allowing for the achievement of the common objective – that is, carbon neutrality by 2050.

Proposal 4

Reassess the effort-sharing rule in the Governance regulation by not only looking at GDP but also taking the carbon intensity element of GDP (i.e., the amount of GHG emissions produced per unit of gross domestic product) into account.

Proposal 5

Establish a framework for statistical transfer between the different sub-targets of the Renewable Energy Directive (RED). Also, provide a framework for transfer between the RED targets and those of other emitting sectors that are not covered by the main emissions trading system (ETS). These statistical transfer frameworks would offer greater flexibility in achieving overall targets.

The RED defines several specific sub-targets for different sectors (industry, transport, buildings, etc.) and technologies (such as nonbiological renewable fuels). Such a framework would allow Member States to offset a deficit in one subsector (for example, if they do not meet their renewable energy target for transport) by achieving a surplus in another subsector (such as industry).

In addition to allowing transfers between the sub-targets of the RED, this framework could establish connections with objectives in other sectors that are not covered by the ETS, such as land transport, buildings, agriculture, and natural carbon sinks related to land use. It would thus enable the transfer or exchange of efforts among these different sectors to achieve common goals.

Proposal 6

If a state does not meet its sectoral renewable energy targets, allow that state to offset its shortfall by contributing to the common renewable platform, which serves to finance renewable energy projects at the European level. Make the platform "vector neutral" by creating a bidding mechanism that covers the production of liquids, advanced low-carbon gases, and low-carbon electricity.

Proposal 7

Provide the platform with a guaranteed minimum contribution from the EU as a whole, making it possible to reduce, by the same amount, the overall renewable target still to be achieved through the efforts of the Member States.

Proposal 8

Review the policy planning approach by requiring Member States to document a study on the "Future of Energy" at least two years before the submission of the integrated national plan. This study should present various energy scenarios up to 2050 and compare their major physical and economic characteristics. It would be based It would be based on long-term system-wide energy modeling and clearly articulated, accessible, and justifiable scenarios (based on various forecasts: cost of capital for low-carbon energy sources, cost of production technologies, trends in energy consumption, etc.). ACER,[1] supported by ENTSO-E/G[2] and ENNOH,[3] could be tasked with overseeing this exercise.

Proposal 9

Within the integrated national plans, provide for a comprehensive presentation of the various incentive schemes aimed at achieving the objectives outlined in these plans. The target rates for electrification in general and by sector should also be specified.
When a Member State submits a subsidy scheme for approval by the European Commission under the state aid regime (to verify that it complies with EU competition rules), it would need to specify that this program aims to help achieve the targets set out in its integrated national plan. This requirement would ensure that the aid schemes are well aligned with the strategic objectives defined at the national and European levels and that they are transparent in their intent and scope.

Proposal 10

Establish an irreversibility clause in European sectoral law. For any project of sufficient size, this clause would prohibit modifying or retroactively canceling the incentive frameworks supporting a project once the final investment decision has been made by the company carrying out the project. If a Member State were to challenge this framework afterward, the EU would guarantee economic compensation to the operators. It would then seek to recover this compensation from the responsible state.

[1] *EU Agency for the Cooperation of Energy Regulators (ACER).*

[2] *European Network of Transmission System Operators (ENTSO-E) and European Network of Transmission System Operators for Gas (ENTSO-G).*

[3] *European Network of Network Operators of Hydrogen (ENNOH).*

Proposal 11
Make the governance of the Energy Union and its planning a continuous process in three phases over a period of five years rather than a periodic exercise updated every five years.

Proposal 12
Wait until 2027–2028 before reopening the debate on the practical implementation of the 2040 objectives and, ideally, on their definition. Allow time for a calm and quantitative assessment of the 2030 objectives and for the deployment of the economic action framework for the transition.