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# The Draghi report on energy issues: a confirmation of the European Commission's strategic agenda?

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Following on from a blog post ([IDDRI, 2024](#)) putting the Draghi report on the future of Europe's competitiveness into perspective, IDDRI is inaugurating a series of posts aimed at analyzing in greater detail the treatment of certain key subjects at the 'competitiveness - ecological transition' interface.

Addressed in the first chapter of the Draghi report, the issue of energy is the subject of numerous recommendations. By exploring both decarbonization as a lever for Europe's future competitiveness and measures to restore price competitiveness in the short term, the report reflects the lines of tension in the current political debate. However, there is a clear need to clarify the trade-offs that emerge from this duality for future European policies.

## Strong support for decarbonization as the key to European competitiveness in the medium and long term...

Confirming the strategic orientations of the European Green Deal, the Draghi report endorses the idea that the low-carbon transition represents an essential lever for Europe's future competitiveness, by enabling a gradual move away from imported fossil fuels and the associated price volatility.

Based on this observation and related recommendations, the report constitutes an important validation of the new Commission's strategic agenda, with particular emphasis on a number of key challenges:

- The need to step up investment in the low-carbon transition. On this point, the Draghi report stresses the key importance of developing network infrastructures and electricity flexibility levers to meet the challenge of integrating the growing share of renewable energies ([IDDRI, 2024](#));<sup>1</sup>
- The need to simplify and accelerate authorization procedures for transition projects, with proposals that are bound to spark new debates on the risk of pitting climate emergency against biodiversity protection;
- The need to complete the reform of the electricity market initiated in 2023 ([IDDRI, 2023](#)), by pursuing integration between markets and strengthening the role of long-term contracts to facilitate investment in low-carbon production (renewable energies and nuclear power) and ensure it benefits consumers, thanks to more stable prices.

## ... coupled with more conventional measures to reduce energy prices in the short term

While this fervent support for the low-carbon transition is reminiscent of philosopher Maurice Blondel's maxim, 'You can't predict the future, you have to prepare for it', Mario Draghi also seems to have adopted the famous quote by economist John Maynard Keynes: 'In the long run, we'll all be dead'. Noting that many of the benefits of the transition will materialize in the longer term, the report also puts forward a series of more 'conventional' recommendations for restoring price competitiveness in the short term, with three main entry points:

- Securing fossil gas supplies over the long term, through a coordinated or even pooled purchasing policy;
- Reducing energy taxation as far as possible, even going so far as to reverse the pre-existing logic of the Energy Taxation Directive;<sup>2</sup>
- Reducing energy prices for industry through public support mechanisms.

## A starting point for further analysis and debate on future strategic choices

The Draghi report is a balancing act between the 'new' and the 'old' world. What looks like inconsistencies between recommendations for and against transition reflect the tensions in the European political debate.

In this sense, the real value of this report lies perhaps as much in what it says as in what it does not say, namely the need to go further to inform the essential trade-offs that will enable the future European strategy to take shape, around a few key principles.

- **Prices vs. bills:** by focusing too much on energy prices, we tend to forget that the main issue remains reducing bills (*price x consumption*): an effort to coordinate fossil gas purchasing strategies may be useful, but the real issue lies in the importance of making energy saving policies a pillar of the new European energy security strategy ([under consultation](#)), by capitalizing on the success of voluntary reduction targets during the recent energy crisis ([EU, 2024](#)).
- **Climate and environment:** measures to simplify and speed up authorization procedures for low-carbon projects may be appropriate, but require a precise analysis of the risks associated with any prioritization between the climate agenda and other environmental concerns (protection of biodiversity and the fight against pollution in particular), which are just as legitimate ([IDDRI, 2024](#)) and should be safeguarded.
- **Strategic realism:** [as Georg Zachmann of the Bruegel think tank points out](#), even if decarbonization is successful, it will be difficult for Europe to erase certain competitiveness gaps: apart from the distant scenario of a global carbon price, it seems unlikely, for example, that the EU will be able to compete with US fossil gas prices, and this must be taken into account when defining the European industrial strategy within specific sectors ([such as steel, for example](#)), in order to avoid a 'whatever it takes' policy that is unsustainable over the long term.<sup>3</sup>
- **The need for coherence and targeting:** the idea of an 'all-out' reduction in taxation or energy prices for all consumers (citizens, SMEs, industry) without distinction or criteria seems neither coherent climate-wise nor desirable budget-wise, as highlighted by the costly episode of the French tariff shield during the energy crisis (IDDRI, 2023). In other words, any tax reform should be designed with a clear focus on target groups and an approach that is consistent with the decarbonization strategy.<sup>4</sup>
- **Clarifying the redistributive issues:** granting preferential treatment to energy-intensive industries that are particularly exposed to international competition implies that other consumers agree to pay the cost. Such an effort 'in the name of industrial competitiveness' could be justified, provided that it is explicitly submitted to political debate to identify the conditions of acceptability and ensure that all consumers benefit from the low-carbon transition. This also implies placing the implementation of such a preferential scheme within a harmonized European framework (to avoid dumping between Member States) and coupling it with strong decarbonization conditions on the part of the industrial beneficiaries.

## 'More Europe for greater competitiveness": primarily a question of governance?

While recognizing the principle of national sovereignty over their energy policy, enshrined in Article 194 of the European Treaties, the Draghi report makes a strong case for greater European integration, whether in terms of energy infrastructure planning, regulation and authorization procedures, energy taxation, the operation of energy markets or investment.

On this particular point, it should be noted that the report does open up new debates, such as the idea of creating a '28th regulatory regime'. On this matter, some kind of strategic realism seems necessary: given the existing complexity of governance processes and bodies, any reinforcement of European integration will have to be analyzed in depth on the basis of the principle of subsidiarity, in order to guarantee its effectiveness and added value. All the more so in a European political landscape that is tilting more than ever in favour of national sovereignty.

The timing is perfect: the revision of the [regulation on the governance of the Energy Union](#) is one of the first opportunities to submit these recommendations to the political debate.

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1 According to the Draghi report, for every euro of investment in low-carbon electricity generation between 2022 and 2040, €0.9 needs to be spent on network infrastructure and system integration, otherwise renewable generation could be curtailed by a factor of 10 (p. 15).

2 The report proposes setting a harmonized 'ceiling' level for the 'taxes and network charges' component at European level, which could provide material for the revision of the Energy Taxation Directive, which has historically been based on the concept of minimum taxation thresholds.

3 The same type of trade-off between industrial sectors deemed to be 'priorities' will have to be made for technological sectors in the energy sector ( [IDDRI, 2024](#)). In this respect, the particularly strong stance taken by Mario Draghi when [presenting the report to the European Parliament](#) seems surprising, indicating that for the photovoltaic industry, there would be no sense in trying to compete with China.

4 The lack of differentiation between the types of industrial players is one of the weak points in the Draghi report's diagnosis, which is partly reflected in the lack of focus of certain recommendations. By way of illustration, the initial statement in the chapter on energy that energy costs 2 to 3 times more in Europe than in its main competitors deserves to be qualified, given that it does not differentiate between the situations of the different Member States (with price disparities that can vary by a factor of 1 to 3), nor those of different industrial players (prices for SMEs have nothing in common with those of electro-intensive manufacturers). Not to mention the fact that the reference year used (2023) tends to amplify the differences due to the energy crisis, with wholesale prices having fallen significantly since then.

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