

Healthy competition & open trade: key for meeting Europe's energy and climate targets

Eurelectric position paper

April 2024

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:

- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

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KEY MESSAGES

- Europe finds itself at a crossroad: it must build up its energy sovereignty or face the prospect of a struggle in global competitiveness.
- European leaders must find the right balance between the policy strategies that drive the development of EU manufacturing for net-zero technologies and those enabling access to diversified and resilient global supplies, in compliance with World Trade Organisation (WTO) principles, and EU environmental, social and governance (ESG) standards.
- For the benefits of free-trade to be realised across the board, it is imperative for all players to respect the rules-based system that governs international trade. Otherwise, trade remedies could be implemented as a measure of last resort, where necessary, to protect domestic markets and industries against unfair and/or exploitative practices.
- Policymakers must carefully consider the trade-offs of trade barriers while balancing the goals of protecting domestic industries.
- Eurelectric recommends exploring parallel actions to deploy net-zero technologies cost-efficiently while building EU manufacturing capacities. These include:
 1. **Regulatory certainty** (i.e. implementing currently agreed legislation; strengthening and deepening the internal market)
 2. **Access to diverse and resilient supplies of net-zero technologies** (i.e. fostering synergies and enhancing diplomatic ties; promoting healthy competition and cooperation with like-minded non-European countries sharing the same environmental and social standards; developing local integrated supply chains)
 3. **Efficient state administration** (i.e. reducing bureaucracy and reinforcing staffing; improving approval processes and streamlining permitting procedures; promoting anticipatory investment frameworks; better planning in energy generation and infrastructure)
 4. **Effective and better structured financing** (i.e. harmonious integration of national and EU industrial policies preserving the level playing field within the internal market; simplifying European funding rules to ensure maximum accessibility)

Introduction

Europe is on an accelerated pathway to net-zero, with the European Commission's recent Communication on the 2040 Climate Target signaling ambition to achieve a 90% emissions reduction target across the economy within the next 16 years.

This would imply doubling the electricity rates in final energy consumption, from around 25% today to 50% by 2040. Yet, to supply a carbon neutral European economy, Eurelectric's [Decarbonisation Speedways](#) study shows electricity capacity will have to triple by 2040, together with a five-fold expansion in renewables and a stable base of firm capacity to match around 4,600 TWh of final power demand. Such an unprecedented scale-up needs to be done cost-efficiently.

Increasingly, **Europe is finding itself at a crossroads: it must build up its energy sovereignty in a cost-efficient way or face the prospect of a struggle in global competitiveness.** The Net-Zero Industry Act (NZIA)¹ and Critical Raw Materials Act (CRMA) were the first steps in this direction, highlighting the key technologies for Europe's decarbonisation and resilience strategy. It is now time for implementation.

Parallel actions to deploy net-zero technologies cost-efficiently, while building local manufacturing capacities

Instead of charging full force in one direction or the other, **European leaders must find the right balance between the two policy strategies.** This is the only way to ensure that the global energy transition does not come to a dangerous halt and Europe maintains its strategic position on the international stage, while leading on climate action.

To meet climate goals and achieve a net-zero economy, the transition will require a quick deployment of clean and renewable technologies which will lead to a steep increase in demand for critical materials and components. Therefore, building reliable partnerships will be essential for a resilient and diverse supply chain, avoiding disruptions and associated risks.

However, the global order is witnessing new geopolitical tensions which have, in turn, triggered the so-called 'weaponisation of trade' by third countries. Current geopolitical tensions risk precipitating potential supply chain disruptions, especially concerning clean technologies. EU trade policy should ensure resilience to third-countries decisions by building competitive supply chains and ensuring a diversified portfolio of cooperation agreements.

Nevertheless, as 'friend-shoring' and domestic re-shoring are becoming more common place, the **EU must carefully consider its long-term strategy in alignment with WTO free-trade principles.**

Not only has free trade under WTO governance enabled more efficient global markets, but it has increased the world's purchasing power and overall wealth since the mid-twentieth century. The data shows a definite statistical link between freer trade and economic growth.

¹ The Net Zero Industry Act (NZIA) has identified a list of net zero technologies, of which include: solar, onshore/offshore wind, battery and energy storage, heat pumps, electricity grids, nuclear, hydropower. Find the full list in the final text [here](#).

For the energy sector, this pattern rings especially true, making trade a critical point of leverage for ensuring a cost-efficient energy transition.

That said, **one of the most foundational pillars of the WTO is to create a level playing field for all its members** through the ‘substantial reduction of tariffs and other barriers to trade and the elimination of discriminatory treatment in international commerce’. Thus, for the benefits of free-trade to be realised across the board, it is imperative for all players to respect the rules-based system that governs international trade.

If not, we acknowledge along with the WTO that **trade remedies could be implemented where necessary, as a measure of last resort**, to protect domestic markets and industries against unfair and/or exploitative practices.

This has become of significant importance for the European energy market as it transitions to renewable and net-zero technologies. China’s dominance in production and processing of essential raw materials is no secret; nor should it go unaddressed by EU policymakers.

Trade cooperation has proven to be essential in the EU. In the current context of changing geopolitical conditions, political unrest and deteriorating climate conditions, the EU should keep following this principle while broadening and diversifying its trade arrangements and agreements, on top of relocating, as possible, the supply chain to Europe. We should work together and create reliable long-term partnerships with like-minded countries to build alternative supply sources, ensuring long-term availability of supplies and keeping the same environmental and social standards as in Europe.

Policymakers must carefully consider the trade-offs of trade barriers while balancing the goals of protecting domestic industries

Trade barriers, such as tariffs and quotas, may have the benefit of supporting nascent local manufacturing facilities by giving them space to grow without being undercut by cheaper imports and by stimulating local job creation. However, they should be proportionate and carefully designed, and their implementation must balance all interests at stake, since they could come with disadvantages:

1. Increased costs for consumers, with possible spillover effects:

Trade barriers, such as tariffs on imported renewable energy components, can raise the cost of deploying these technologies. This, in turn, can increase the overall cost of renewable energy projects, making them less competitive compared to traditional energy sources.

While trade barriers may be implemented to protect domestic industries, they can have unintended consequences. Higher costs resulting from tariffs can lead to reduced demand for renewable energy projects, potentially impacting employment within the clean energy sector. Moreover, the imposition of tariffs may generate negative spillover effects on other sectors (e.g. higher electricity prices negatively impacting industry, especially electro-intensive ones).

2. Slower technology diffusion:

Trade barriers can slow down the global diffusion of energy technologies. International collaboration and the free flow of goods can accelerate the transfer of knowledge, innovations and cost reductions, contributing to faster advancements and broader adoption of clean energy solutions.

On the contrary, free trade fosters competition, driving technological innovation and improvement. In the context of healthy and balanced competition, when multiple actors are involved in the production of components, manufacturers are motivated to invest in research and development (R&D) to stay competitive. This competition can lead to advancements in efficiency, durability and overall performance of the net-zero technology.

In a protectionist environment with trade barriers, there may be less incentives for innovation, as domestic industries might face less competition. It is thus essential that the EU steps up its efforts to restore healthy competition between countries, promoting high environmental and social standards in the WTO context, and bilateral trade agreements.

3. Inefficiencies and reduced competition:

Protectionist measures may lead to inefficiencies in domestic industries, as they may face less pressure to optimise production processes and reduce costs. Additionally, reduced competition in the domestic market may result in a lack of incentives for continuous improvement and innovation.

Free trade, however, allows countries to specialise in the production of goods and services in which they have a comparative advantage. By engaging in free trade, countries can allocate resources more efficiently, leading to lower production costs. This efficiency can result in more affordable products, making clean energy more accessible to a larger array of consumers.

4. Slowing down the energy transition:

The competitiveness of clean and renewable energy in the marketplace is often dependent on achieving cost parity with fossil energy sources. Tariffs can disrupt this balance by artificially inflating the costs of technologies. Assuming certain factors being comparable (e.g. existence of a carbon price, attention to environmental aspects, etc.), this can hinder the ability of decarbonised energy projects to compete on price, slowing down the transition to cleaner energy alternatives.

The costs of solar, wind and batteries have decreased significantly over the past decades. While scalability played a significant role, the exposure to international competition, among other aspects, drove manufacturers to innovate and produce the technologies at the lowest costs.

5. Hinder global efforts to address climate change and increase global supply chain disruptions:

Climate change is a global challenge that requires concerted efforts from all countries. Trade barriers can impede the global collaboration needed to address climate change effectively. Encouraging international cooperation and the exchange of net-zero energy technologies is crucial for achieving climate goals.

Net-zero technologies often rely on global supply chains, with raw materials and components sourced from various countries. In some cases, however, supply chains are concentrated in a few countries. Tariffs can disrupt these global supply chains, leading to delays, inefficiencies, and increased uncertainty for project developers and investors.

By removing trade barriers, while simultaneously encouraging the decarbonisation of global supply chains, net-zero technologies can be more easily transported and distributed worldwide, with a limited carbon footprint. This widespread access to net-zero technologies can accelerate the adoption of clean energy solutions, addressing climate change concerns on a global scale. Additionally, a global market for net-zero products helps create economies of scale, reducing overall costs and making decarbonised technologies more competitive with conventional energy sources.

EU trade policies should be implemented along with support for European industries

Rather than hindering the entry of foreign products into the market, the EU must support its own industry with all the existing and available instruments so that it can compete on a level playing field. These include:

- a. **Direct and easily accessible financial support** (grants, state-backed guarantees, and other support for example, under the Common Agricultural Policy, the Just Transition Fund, the Recovery and Resilience Facility, the Innovation Fund, among others).
- b. **Streamlining and simplifying permitting process of clean-tech projects**, in line with current targets of the Net-Zero Industry Act and avoiding permitting bottlenecks.
- c. **Strengthening the internal market and ensuring a level-playing field**, namely by negotiating trade agreements that provide favourable market access conditions for European companies, reducing trade barriers and enhancing investment opportunities in key global markets.
- d. **Prioritise the protection of intellectual property rights and promote collaboration on R&D initiatives**, fostering an environment conducive to innovation and technological leadership.
- e. **Reduce red tape for EU-based companies** for a more efficient use of scarce resources.

This is particularly important in sectors facing unbalanced dependencies on third countries (i.e. EV battery supply chains, where Asian actors have a significant lead and control). Consequently, such policy and financial support could strengthen the EU's sovereignty, while decreasing the carbon footprint of net-zero technologies.

Policy recommendations

Eurelectric recommends exploring the following parallel actions to deploy net-zero technologies cost-efficiently while building local EU manufacturing capacities:

1. Ensure regulatory certainty and predictability:

- a. **Ensure the stability and predictability of the regulatory framework** to support long-term investment decisions without excluding the possibility to upgrade it.
- b. **Double down on the implementation process** of the existing legislation to ensure we deliver on energy and climate commitments.
- c. **Further strengthen and deepen the internal energy market** and provide a favourable, predictable and technology neutral investment environment for all assets needed to achieve the EU's net zero ambition.
- d. **Encourage partnerships and cost-competitive collaboration** among EU industrial sectors to enable them to remain globally competitive.

2. Diversify supply and foster partnerships based on high environmental and sustainability standards to ensure continuous and resilient access to net-zero technologies:

- a. **Ensure monitoring of net-zero technology supplies and their critical raw materials for the EU market** to identify whether risks of potential supply disruptions and availability gaps emerge.
- b. **Invest in and seek a wider and more diversified range of suppliers/partnerships** in third countries, across the value chain.
- c. **Foster synergies and enhance diplomatic ties** to increase our energy sovereignty, while creating a beneficial environment for partnerships and avoiding potential vulnerabilities in the global supply chain (particularly caused by deteriorating geopolitical and climate conditions)
- d. **Promote healthy competition and cooperation with like-minded non-European countries** sharing the same social and environmental standards to address supply chain constraints and pave the way to sustainable, diverse and reliable sourcing.
- e. **Incorporate sustainable development clauses in trade agreements that ensure that investments in third countries align with the EU's green transition objectives** (e.g. in line with an ESG framework, the European Sustainability Reporting Standards and Due Diligence on Impact Assessment, prior to investment).
- f. **Build local EU manufacturing facilities in a cost-efficient way and with high environmental and social standards**, including through the development of integrated supply chains, creating districts (or clusters) from raw materials to the final product.

3. Ensure efficient administration

National policies can be tailored to address regional disparities and unique industrial landscapes, fostering a conducive environment for the development of net-zero technologies and practices. The state can contribute to increasing the regional attractiveness for businesses by ensuring suitable framework conditions, including via:

- a. **Reducing bureaucracy and improving approval processes.** This can be achieved by cutting the red-tape that has been a major roadblock in delivering net-zero industries, simplifying permitting procedures, reinforcing staff in state administrations, and promoting anticipatory investment frameworks that secure the deployment of energy infrastructure.
- b. **Ensuring coordination of policies and mechanisms,** whilst monitoring progress and assessing the impact is fundamental to guarantee the success of national implementation of EU's energy and climate policies.
- c. **Ensuring transparency in the decision-making process,** namely by encouraging stakeholder engagement and consultation.
- d. **Providing comprehensive assistance programs** to support compliance with trade regulations and the adoption of best practices in governance and sustainability.
- e. **Improving planning in energy generation and infrastructure.** Member States can use the EU-provided instruments to speed up procedures for energy infrastructure and explore Important Projects of Common European Interest (IPCEI) to support net-zero technologies.
- f. **Address labour shortage** via adjusted educational systems (for both initial and continuing training) that impart key qualifications, promoting technical expertise in areas like decarbonisation and digitalisation.
- g. **Introduce tax credits for manufacturers of equipment and material for strategic net-zero technologies.** This could be a tool to drive capital investment to the creation of European supply chains, since it will encourage developers to purchase high-standard products, strengthening the growth and the development of the industry. Such approach, however, needs to be carefully assessed.

Simultaneously, EU-level policies can play a crucial role in coordinating national efforts, but also by providing a comprehensive vision and standardised guidelines for improving Europe's industrial competitiveness and ensuring all market participants follow the same rules.

4. Effective financing

- a. Proceed to **a harmonious integration of national and EU industrial policies** (including their respective investment frameworks) to preserve the level playing field within the internal market and ensure a coordinated and efficient capital flow.
- b. **Establish clear guidelines and simple procedures for application and streamline European funding rules to ensure maximum accessibility,** the application process and implementation requirements along the value chain.
- c. **Provide guidance and support** on how organisations can combine national and EU funding while remaining state-aid compliant. This could be done through the creation of a tool/EU mechanism that allows to combine different EU funds.

- d. Explore the value of **targeted stimuli of temporary nature** in sectors where functioning markets do not (yet) exist. Such support shall be designed in a manner that fits an if-needed approach and reduces distortions as much as possible. As subsidies are not a sustainable long-term solution, Europe should foster free markets and competition to drive the learning curve and price formation.
- e. Promote a **new energy lending policy** of the European Investment Bank (EIB) to support projects relating to the supply of critical raw materials needed for decarbonised energy technologies in the EU.
- f. Set up a new **common European loan system** to increase investment in the energy transition and especially in net-zero technologies.
- g. Foster **investment in R&D programmes** to seek alternatives to products for which the EU has a critical dependency.

Conclusion

Striking the right balance

The journey towards achieving Europe's energy and climate targets necessitates a delicate balance between fostering healthy competition and ensuring open trade, while simultaneously building local manufacturing capacities which will also contribute to Europe's sovereignty. The accelerated pathway to net-zero by 2040 underscores the urgency and complexity of this endeavour, where parallel actions are crucial for cost-efficient deployment of net-zero technologies. Europe's strategic position in the global energy transition hinges on navigating this balance aptly.

Moving forward, policymakers must prioritise regulatory certainty, supply diversification and resilience, efficient EU and national administration and effective, leaner financing mechanisms to deploy net-zero technologies cost-efficiently, respecting high environmental and social standards. In parallel they should ensure the build-out of local EU manufacturing capacities, while encouraging demand for such net-zero technologies. By embracing these parallel actions, Europe can strengthen its energy sovereignty, enhance global competitiveness and lead the way towards a sustainable and resilient net-zero future.

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability



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