

Informal Meeting of Energy Ministers
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***Remarks by Simone Tagliapietra (Deputy Director, Bruegel)
on Europe's electrification and industrial competitiveness***

Europe's energy future is electric – and electrification will reshape Europe's industrial geography.

Clean electricity generated in Europe will allow Europe to reduce its dangerous dependency on geopolitically volatile and expensive imported fossil fuels. It will also unlock new industrial opportunities, especially related to the manufacturing of those clean technologies for which Europe has comparative advantages.

But the clean electricity revolution will also involve far-reaching and potentially contentious changes. Smart national and EU-level policies will need to embrace, rather than fight, these.

Three points need to be highlighted.

First, to succeed, the electric revolution will require European solutions. Only through greater coordination will Europe be able to ensure a competitive, affordable and secure supply of energy. Regrettably, the Energy Union is far from complete. Disagreement between governments continues to prevent its necessary advancement.

That is, we are seeing a dangerous trend towards re-nationalisation of electricity policy. The proliferation of different energy-subsidy schemes and capacity mechanisms across Europe clearly illustrates this trend.

A system is needed in which responsibilities are assigned in a way that all parties have incentives to maximise the security of the joint European electricity system, and to make it as cost competitive as possible.

Governments and the European Commission should work together to make robust assessments of capacity and grid needs to guide investors. Clarity on needs and reduction of regulatory risks will lower capital costs. This can drastically cut the cost of the capital-intensive system that we want to build to electrify our economies.

All this requires developing a shared vision on the future European electricity market – and gradually building the trust among countries that will enable that market's individual elements to be developed jointly.

Electricity is the only domestic clean fuel available to power Europe's economies. We cannot afford the high costs of a fragmented and inefficient system.

If the goal of a Union-wide electricity market can be achieved, it will have the size to drive innovation and competition in electricity technologies so that a virtuous cycle of cost savings, deployment and innovation will once again make the EU energy-competitive globally.

Second, energy affordability requires structural solutions, not short-cuts or dead ends. Short-run solutions to decrease electricity prices all involve games of redistribution, namely between families and companies.

Most recently, short-termism has fuelled attacks on the carbon price under the EU emissions trading system, though it is the main driver of long-term decarbonisation in the power sector.

Structurally lowering electricity prices takes time and requires structural answers, such as deeper integration of the European electricity system. If this can be done, both fuel use and price volatility will be reduced, while the return on investment for new renewable assets will be maximised.

Third, Europe's industrial map will evolve alongside the emerging, new clean-electricity map. Prime industrial locations are no longer on top of coal mines or at the end of gas pipelines. They are rather where the sun shines, the wind blows (as on Ireland's west coast) – or where nuclear energy is available.

Allowing energy-hungry industrial processes to relocate to these areas in the future will lower costs, improve competitiveness and reduce the strain on grids. This does not mean deindustrialisation. Rather, it suggests smart rethinking of supply chains. It should be noted that most industrial jobs and activity do not involve operating energy-intensive machinery.

Just as profitable companies today import oil, iron ore and natural gas, in the future they will trade electricity-intensive primary products. Producing these products where clean energy is abundant – both within and outside Europe – will mean lower costs for households and companies where the clean-energy endowment is scarce and will help European industry to remain competitive globally.

To conclude, Europe's energy future will be electric — and that will reshape its industrial geography. The question is whether Europe manages this transformation together, efficiently and competitively, or in a fragmented way and at much higher cost.

European families and businesses need their governments to pursue structural solutions for the long term, rather than costly short-term defensive measures that may be temporarily popular but deliver no lasting results. For energy, greater European integration is the smart way forward.

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Remarks jointly prepared with Flora Marchioro (Affiliate fellow, Bruegel), Ben McWilliams (Affiliate fellow, Bruegel) and Georg Zachmann (Senior fellow, Bruegel), also benefiting from comments by Claire Waysand (Non-resident fellow, Bruegel) and Stephen Gardner (Senior editor, Bruegel).