

Position Paper on Electricity Report by IEA

European Enterprise Alliance and the Union of Entrepreneurs and Employers (ZPP) affirm their stance on the pivotal role of electricity reforms in the European Union. Committed to fostering a resilient and forward-thinking energy landscape, the European Enterprise Alliance stands in collective support of initiatives aimed at enhancing the efficiency and sustainability of the electricity market while ensuring economic stability.

Background

The European electricity market witnessed significant developments and reforms in 2023, driven by economic conditions, policy changes, technological advancements, and environmental concerns according to the report published by the International Energy Agency (IEA)¹. What can be taken from the Report for the EU?

Electricity Demand and Generation Trends:

Across Europe, electricity demand experienced a decline in 2023, primarily due to slowdowns in manufacturing and industrial activities. While this trend was evident continent-wide, specific countries displayed varying patterns in electricity consumption. Notably, Portugal, Croatia, Cyprus, Malta, Ireland, Denmark, and Norway bucked the overall trend, witnessing increases in electricity usage. Although Germany experienced a decrease in electricity demand in 2023, largely attributed to weak industrial activity. However, signs of recovery are evident, particularly in the industrial sector, fueled by the increasing adoption of electric vehicles (EVs) and heat pumps. In parallel, the role of renewables is poised to expand, with coal and gas-fired generation witnessing declines. Similar to Germany, Italy observed a decrease in electricity demand in 2023.

Nevertheless, the country saw growth in renewable generation and intensified its focus on energy efficiency projects and renewable energy initiatives. Italy aims to surpass a 50% share of renewables in total generation by 2024. Overall, Despite the overall decline in demand, renewable energy generation continued to grow, offsetting reductions in fossil-fired power generation.

¹ "Electricity 2024 – Analysis." IEA, Jan. 2024, www.iea.org/reports/electricity-2024.

European Union Electricity Market Reform:

Recognizing the need for comprehensive reform, the European Union embarked on a journey to revamp its electricity market in 2023. The reform aimed to mitigate price volatility, safeguard consumer interests, and adapt the energy system for higher renewable energy penetration. It introduced measures such as promoting power purchase agreements (PPAs), ensuring freedom of choice for energy providers, and facilitating energy-sharing schemes for self-consumption. Additionally, provisions were established to protect energy-vulnerable communities and establish backup suppliers during crises.

Renewable Energy Directive and Grid Development:

In tandem with market reforms, the European Union adopted the new Renewable Energy Directive (RED III) to accelerate the integration of renewable energy sources. Setting ambitious targets, RED III aimed for a renewable energy share of 42.5% by 2030, with aspirations to reach 45%. The directive seeks to expedite the approval of new renewable projects and increase renewable energy utilization across transport, industry, and buildings. Furthermore, the EU Action Plan for Grids highlighted the indispensable role of electricity grids in supporting decentralisation, digitalisation, and flexibility initiatives. Amid these overarching reforms, France experienced a resurgence in nuclear power generation in 2023, overcoming challenges in supply dynamics. Concurrently, renewable energy witnessed growth, contributing to decreased gas burn in the power sector. To further bolster renewable energy deployment, the French government passed the Renewable Acceleration Bill, aimed at easing the deployment of renewable technologies.

Policy Recommendations for Strengthening Energy Security in the European Union

The European Union should prioritize diversifying its energy sources to reduce reliance on external suppliers and enhance energy security. The IEA's 2024 electricity report underscores the importance of this recommendation, highlighting the risks associated with dependency on external sources, particularly fossil fuels.

EU can leverage its renewable energy potential and invest in domestic renewable energy production. For instance, countries like Germany and Spain have made significant strides in renewable energy deployment, with wind and solar power contributing substantially to their electricity generation mix. By promoting energy efficiency measures and incentivizing the adoption of renewable energy technologies, the EU can reduce its reliance on fossil fuels and transition towards a more sustainable and resilient energy system.

Moreover, exploring alternative energy sources such as hydrogen and nuclear energy can further diversify the EU's energy mix and enhance energy security. Countries like France, with its extensive nuclear energy infrastructure, serve as examples of successful nuclear energy deployment. However, careful consideration should be given to safety and environmental concerns associated with nuclear energy, highlighting the importance of robust regulatory frameworks and technological innovation in ensuring safe and sustainable nuclear energy production.

Cross-border cooperation in infrastructure development is also essential for enhancing resilience and promoting energy security in the EU. By investing in interconnection projects and cross-border transmission lines, the EU can improve energy market integration and facilitate the exchange of electricity between member states. Initiatives like the North Sea Wind Power Hub, which aims to create a network of interconnected offshore wind farms in the North Sea, demonstrate the potential of cross-border collaboration in advancing renewable energy deployment and strengthening energy security.

Conclusion:

The European electricity market underwent significant transformations in 2023, characterized by declining demand, increasing renewable energy penetration, and comprehensive market reforms. As countries across Europe transition towards a cleaner and more sustainable energy future, continued investment in renewable energy, grid infrastructure, and policy initiatives will be crucial to achieving long-term energy objectives. It is crucial to highlight the significant potential of the Baltic Sea for offshore wind energy projects, exemplified by initiatives such as Baltic Power and the ongoing construction of PGE Baltica. The emerging opportunities for renewable energy development in the region are highlighted by this project and emphasizing the need to strengthen the European Union's supply chain to support ambitious ventures is essential for advancing the continent's sustainability goals. Additionally, advocating for streamlined revisions in the renewable energy sources (RES) auction framework, as outlined in the Net Zero Industry Act, is vital for creating an environment conducive to innovation and investment. Recognizing and harnessing the Baltic Sea's potential for offshore wind energy and advocating for systemic reforms will enable the European Union to pave the way for a resilient and sustainable energy future.

European Enterprise Alliance and the Union of Entrepreneurs and Employers envision a stable, resilient, and sustainable electricity sector. The IEA Report on Electricity underscores the pivotal role of concerted efforts in achieving these aspirations, ensuring a future aligned with Europe's economic and environmental goals. As we navigate these critical steps, the EU and its member states should act decisively to foster the development of policies and initiatives outlined in the IEA Report to secure a sustainable electrification future.