



**Brussels, 4 October 2024  
(OR. en)**

**13987/24**

**ENER 473  
COMPET 980  
CLIMA 331**

**NOTE**

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From:	Presidency
To:	Permanent Representatives Committee/Council
Subject:	The contribution of the energy sector to the competitiveness of the European Union – follow up to recommendations of the Draghi report - Exchange of views

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Delegations will find in Annex the Presidency background note on the contribution of the energy sector to the competitiveness of the European Union – follow up to recommendations of the Draghi report in view of the TTE (Energy) Council on 15 October 2024.

**The contribution of the energy sector to the competitiveness of the European Union: follow-up to the recommendations of the Draghi report**

On 17 and 18 April 2024, the European Council<sup>1</sup> called for a new European Competitiveness Deal and for work to be taken forward decisively and swiftly on achieving a genuine Energy Union, by securing the supply of abundant, affordable and clean energy, which serves the dual objective of pursuing European energy sovereignty and climate neutrality. This will require robust governance of the Energy Union, ambitious electrification using all net-zero and low-carbon solutions, flexibility, and substantial deployment of and investment in grids, digitalisation, storage and interconnections. In July 2024, the President of the European Commission announced a new Clean Industrial Deal for competitive industries and quality jobs, to be unveiled in the first 100 days of the mandate.

The priority for the Hungarian Presidency of the Council is to facilitate the adoption of such a new European Competitiveness Deal to relaunch economic growth and create the conditions for sustainable growth, deepen the internal market, give priority support to small and medium-sized enterprises, promote the green and digital transitions in partnership with European economic operators and citizens, foster international cooperation, and ensure job stability and sustainability.

Affordable energy is key to the competitiveness of the EU's industry. Efforts to ensure secure and adequate access to clean energy at globally competitive prices in the internal market will be vital to better position the EU's industrial strengths during the transition.

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<sup>1</sup> <https://www.consilium.europa.eu/en/press/press-releases/2024/04/18/european-council-conclusions-17-and-18-april-2024/>

The EU's ambitious climate and energy objectives can only be achieved if they go hand in hand with the EU's competitiveness and the security of energy supply throughout the green and just transition.

In his report about **The Future of European Competitiveness**<sup>2</sup>, Mario Draghi gives a comprehensive overview of the main challenges to Europe's competitiveness and outlines a series of actions to revitalise our economy. The report underlines the **need for massive investments**, of at least EUR 750 to 800 billion annually, and argued for radical change, which will have to be urgent and concrete. He also points out that, against the backdrop of its shrinking population and labour force, Europe must focus more on increasing its productivity in order to achieve growth.

**The report proposes a joint decarbonisation and competitiveness plan, which should align all policies with the EU's objectives.** Priority areas to be addressed include, first, lowering energy costs for end users by transferring the benefits of decarbonisation and accelerating the decarbonisation of the energy sector in a cost-efficient way, leveraging all available solutions. Second, capturing the industrial opportunities presented by the green transition, ranging from remaining at the forefront of clean tech innovation to manufacturing clean tech at scale to leveraging the opportunities from circularity. Third, levelling the playing-field in sectors more exposed to unfair competition from abroad or facing more exacting decarbonisation targets than their international competitors.

The Draghi report touches upon many policy fields. In the section devoted to the **energy sector**, Draghi stresses its pivotal role in shaping Europe's competitiveness, sustainability, and resilience. Several recommendations address pressing energy challenges faced by the EU, while positioning it to lead in the global transition to clean energy.

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<sup>2</sup> [EU competitiveness: Looking ahead - European Commission \(europa.eu\)](https://ec.europa.eu/economy_finance/competitiveness_en)

The report makes a convincing case for reforms to Europe's energy market. At its core, the report ties Europe's long-term economic strength to its ability to reduce energy prices and foster a sustainable, decarbonised energy system. **Europe must bring down high energy prices while continuing to decarbonise the economy.** The energy landscape has changed irreversibly with the Russian invasion of Ukraine and the resulting loss of pipeline natural gas. While energy prices have fallen considerably from their peaks, EU companies still face electricity prices that are 2-3 times those in the US and natural gas prices paid are 4-5 times higher. Decarbonisation could be an opportunity for Europe, both to take the lead in new clean technologies and circularity solutions, and to shift power generation towards secure, low-cost clean energy sources. However, whether Europe can seize this opportunity will depend on all policies being in line with the EU's decarbonisation objectives. The energy transition will be gradual and fossil fuels will continue to play a central role in energy pricing for the remainder of this decade, threatening continued price volatility for end users. EU industries that use energy intensively face higher investment costs than their competitors to meet decarbonisation targets.

Draghi also highlights the geopolitical risks associated with **Europe's reliance on imported fossil fuels and critical raw minerals.** These risks extend beyond energy, touching on the EU's industrial and trade policies, demanding comprehensive solutions that go beyond energy markets alone.

Draghi's report advocates reforms in the energy sector that would make greater market efficiencies possible, reduce price volatility, and foster investment in renewable energy. Those reforms would strengthen broader economic goals, positioning decarbonisation as a competitive advantage for Europe, provided that the necessary investments and regulatory changes were made.

*The Hungarian Presidency of the Council is organising a comprehensive follow-up to the Draghi report, with discussions on the contributions of various sectors to the EU's competitiveness. In that context, Energy Ministers are invited to share their views on the following questions:*

- 1) Which recommendations of the Draghi report in the energy sector should the EU focus on as priorities, and how could they be implemented?*
  - 2) Which recommendations would contribute most to the EU's objective of keeping energy costs affordable and competitive without losing sight of the need for decarbonisation and energy security?*
  - 3) Implementing the recommendations will require massive investments at European, national and regional levels. What would be the most effective ways to leverage private capital in order to close the investment gap?*
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