

## The new European Commission's roadmap from a credit view:

*(Part II)*

### EU Energy Union



Emmanuel Dubois-Pelerin | S&P Global Ratings

*Keywords: Market Structure, pricing, incomplete markets, welfare economics – allocative efficiency, macroeconomic policy coordination, publicly provided private goods, other public investment and capital stock*

*JEL codes: D4, D52, D61, E61, H42, H54*

S&P Global Ratings expects the next European Commission to continue to prioritize EU competitiveness and the digital and green transition, as well as defense, security and immigration issues. In this series of Policy Briefs, we take a closer look at the issues of:

- The enforcement of EU fiscal rules in a context of rising defense spending,
- Energy market integration,
- Capital market union, banking union and financial services regulation.

On the second point, the subject of this note, we believe that further energy market integration remains key in the EU's drive to improve its overall competitiveness. So far, the EU has essentially achieved oil and gas price convergence. On the power side, in contrast, we think that divergences will persist beyond this decade. EU-level coordination will be crucial in determining the degree and pace of development of low-carbon hydrogen generation and pipelines. Given the disparity of renewable generation capacity across countries versus the locations of consumption, no one member state can develop the integrated hydrogen chain alone and at scale.

## What is the EU energy union and is it attainable?

The energy union is the EU's strategy to ensure the supply of affordable, secure, and sustainable energy that is as low-carbon and home-produced as possible in an integrated EU market. Because the EU's energy bill is still 2.5% of GDP higher than in the U.S., further energy market integration remains key in the EU's drive to improve its overall competitiveness. The EU has improved its gas-import infrastructure and contracts since the start of the Russia-Ukraine war, and so we generally think that the EU has largely achieved the union's aim in terms of oil and fossil fuel gas.

EU Commission initiatives to foster renewable power generation--from Fitfor55 to RepowerEU and the Green Deal--have helped the EU break records in decarbonizing its power supply mix. In 2023, 44% of power generation was from renewables, and we expect this proportion to rise to 50% in 2024, or about 75% including nuclear. A level of 70% by 2030 would be broadly consistent with the EU's ambition of renewable energy contributing 42.5% of the primary energy supply. The EU should achieve this target on time, or at the latest in the early 2030s.

There remains much more to do to facilitate power supply, with key projects slated for completion this decade. Most challenging will be enabling low-carbon hydrogen generation and flows; and carbon-capture science and technology (CCST). From an industrial equipment perspective, Net-Zero Industry Act goals remain demanding, notably that of increasing Europe's own supply of solar panels and batteries.

While the European Commission can initiate, finance, and coordinate certain efforts, actions by member states and even local actions are key, for example, in authorizing new onshore wind and solar capacity. In our view, the EU is particularly relevant when there is a need to:

- Agree market reforms across member states, such as standardizing power prices or optimizing power price zones, for example, deciding whether Germany should split its single power zone. Since 2022, the European power market design reform has made steady progress;
- Improve cross-border flow capacity where energy sources are located far from their consumption locations;
- Broaden financing sources, including from member states' budgets, to support the adoption of new technologies. Such technologies need subsidizing as they are either less mature--like battery storage, low-carbon hydrogen generation and pipelines, and CCST--and/or less economical--like nuclear newbuilds, or costly cross-country power lines or interconnections; and
- Facilitate a consensus on renewable generation--such as the EU's target for renewables to contribute 42.5% of the primary energy supply--and market-integration targets, including for interconnections. The EU targets a ratio of available interconnection capacity to total generation capacity of 15% (see Chart 3 and "Europe's Power Push: Can Project Finance Help Fund Interconnections?," published on Nov. 16, 2023).

What's more, the EU Commission can facilitate coordination with the following key non-EU European energy partners:

- The U.K., as it switches from importing power to exporting power and hydrogen in the rest of this decade;
- Norway, as a key supplier of gas, power, and potentially hydrogen, and as a storage location for captured carbon dioxide; and
- Switzerland, a key power-transit country.

## What credit impact could the EU energy union have?

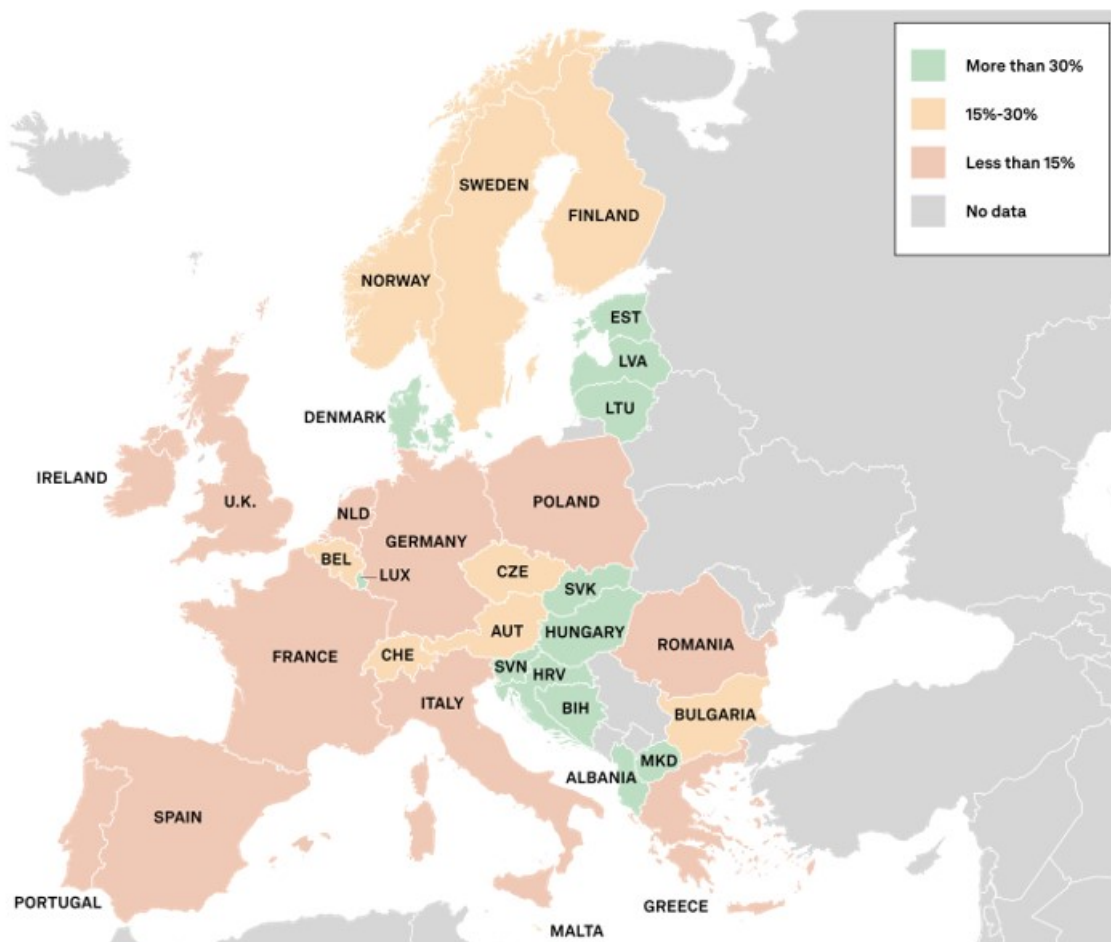
The concept of an energy union may appear vague and its completion ambitious. However, in assessing the potential rating impact of this union, we focus on price convergence and on how institutional coordination can support energy import, generation, and transmission projects.

The EU has essentially achieved oil and gas price convergence, ensuring equal and competitive access by businesses and households, subject to Europe's position as an importer and price-taker. On the power side, in contrast, we think that divergences will persist beyond this decade. Notably, the wholesale fuel component of bills could prove cheaper in Norway, Sweden, and Iberia than in Northwest Europe by a significant 10%-30%, bringing prices closer to those typical in the U.S. Wholesale fuel would remain 10%-15% pricier in Italy.

EU-level coordination will be crucial in determining the degree and pace of development of low-carbon hydrogen generation and pipelines. Given the disparity of renewable generation capacity across countries versus the locations of consumption, no one member state can develop the integrated hydrogen chain alone and at scale.

**Chart 1.**

**Ratio of interconnection capacity to total electricity generation installed capacity by 2030**



AUT--Austria	BEL--Belgium	BIH--Bosnia and Herzegovina	CHE--Switzerland	CZE--Czech Republic
EST--Estonia	HRV--Croatia	LTU--Lithuania	LUX--Luxembourg	LVA--Latvia
MKD--North Macedonia	NLD--Netherlands	SVK--Slovakia	SVN--Slovenia	

Total installed capacity used for this calculation includes all the embedded generation in the country. This denominator might be different from the total installed capacity connected to the grid, which would likely be used by TSOs to compute the ratio. Hence the ratio depicted in this chart could be marginally lower than those computed by TSOs with a lower denominator. Our ratio does not aim to capture how the EU would make the calculation and it should be seen as a benchmark instead. The calculation relies on our expectation on the commissioning of interconnection projects that will be pursued. TSO--Transmission system operator.

Source: S&P Global Commodity Insights.  
Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

## Related Research from S&P Global Ratings

- CreditWeek: What Does The U.S.-Eurozone Interest Rate Differential Mean For Currencies And Capital Flows, June 20, 2024
- Supervising Cyber: How The ECB Stress Test Will Shape The Agenda, March 6, 2024
- EU Banking Package: Inconsistencies Temper Framework Improvements, Jan. 9, 2024
- Europe's Power Push: Can Project Finance Help Fund Interconnections?, Nov. 16, 2023
- Thirty Years Of The EU Single Market: Why Cross-Border Capital Flows Remain Sluggish, Despite Positive Developments, May 25, 2023
- How the Capital Markets Union Can Help Europe Avoid A Liquidity Trap, April 15, 2021
- The EU Capital Markets Union Can Turn The Tide in Europe, Feb. 25, 2020

## About the author

**Emmanuel Dubois-Pelerin** (Managing Director, Sector Lead for EMEA Utilities, Global Coordinator for Utilities) since 2022, Emmanuel has been S&P Global Ratings' senior analyst for power, gas and water utilities. In particular, for the EMEA region he is responsible for developing sector credit views, analytic consistency and outreach to market. Emmanuel also chairs our internal global coordination body on utilities and represents EMEA utilities on the one on Government-Related Entities.

Over 2015-2022, Emmanuel led S&P's second line of defense team monitoring analytical teams' application of S&P's methodologies, covering APAC-EMEA Structured Finance and global Corporates & Governments.

Emmanuel was Criteria Officer for Global Financial Services during 2012-2015 and, during 2003-2011, for EMEA Corporate Ratings. Emmanuel also was a senior analyst on high-profile oil and gas and chemicals credits. Previously, he headed the Paris-based Industrials team as well as the Southern Cone Industrials team, based in Buenos-Aires.

Emmanuel holds a Master degree from Ecole des Hautes Etudes Commerciales (HEC), a Postgraduate in Economy & Finance from the Ecole des Hautes Etudes en Sciences Sociales and a postgraduate in History from the Sorbonne University.



**SUERF** is a network association of central bankers and regulators, academics, and practitioners in the financial sector. The focus of the association is on the analysis, discussion and understanding of financial markets and institutions, the monetary economy, the conduct of regulation, supervision and monetary policy.

SUERF's events and publications provide a unique European network for the analysis and discussion of these and related issues.

**SUERF Policy Briefs (SPBs)** serve to promote SUERF Members' economic views and research findings as well as economic policy-oriented analyses. They address topical issues and propose solutions to current economic and financial challenges. SPBs serve to increase the international visibility of SUERF Members' analyses and research.

*The views expressed are those of the author (s) and not necessarily those of the institution(s) the author(s) is/are affiliated with.*

All rights reserved.

**SUERF Policy Notes and Briefs**

[www.suerf.org/publications/suerf-policy-notes-and-briefs/](http://www.suerf.org/publications/suerf-policy-notes-and-briefs/)

### Editorial Board

Ernest Gnan  
David T. Llewellyn  
Donato Masciandaro  
Natacha Valla

SUERF Secretariat  
c/o OeNB  
Otto-Wagner-Platz 3  
A-1090 Vienna, Austria

Phone: +43-1-40420-7206  
[www.suerf.org](http://www.suerf.org) • [suerf@oenb.at](mailto:suerf@oenb.at)