









E-PAPER

Policy Paper

Accelerating the European Energy Transition

Impetus for the EU reform debate

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Foreword

The war in Europe, the worsening climate crisis, the pressure on liberal democracies and Europe's unresolved position in the global power structure — the European Union is facing historic challenges. In order to maintain its future viability, the EU must become more capable of taking action. The Russian war of aggression against Ukraine also shows us that the enlargement and neighbourhood policy is in urgent need of readjustment. However, the enlargement process makes the institutional reform of the EU, which is already needed to strengthen its ability to take action, even more pressing. There is currently no uniform position in the EU on the question of how broadly such a reform should be structured and how it should be implemented. Suggestions and ideas have been put forward, though reservations and concerns have also been expressed. An agreement can only be reached if all sides are listened to and taken seriously. As the largest Member State, Germany has a special responsibility in this regard.

Against this backdrop, the Heinrich Böll Foundation has invited experts from various policy areas to provide impetus for the EU reform debate. Based on the current challenges, common goals for sustainable policy-making and recommendations for institutional reforms have been formulated. In their entirety, they are intended to better equip the EU to take action, as well as become more democratic, ecological and socially just. In doing so, we have not limited ourselves to the interaction of the EU institutions in the narrower sense but have, rather, also looked at policy areas that are central to the future viability of the EU: European foreign and security policy as well as energy, agricultural, fiscal and enlargement policy. The result is a series of policy papers, some of which propose pragmatic approaches, others a change of direction. Many of the recommendations can be achieved without treaty amendments. What is needed above all is the political will to exploit the existing potential. All texts conclude with the question of how Germany can contribute to the success of the reform process. We hope this will provide impetus for the relevant debate.

This policy paper deals with the European energy transition. We would like to thank the author, Julian Schwartzkopff from Environmental Action Germany, and the members of the expert group — MEP Michael Bloss, Janik Feuerhahn, Rheanna Johnston, Prof. Dr. Michèle Knodt, and Heike Leberle — for their valuable contributions.

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Executive summary

With the European Green Deal, the European energy transition has taken a major step forward in the legislative period from 2019 to 2024. In view of constantly increasing energy prices and the higher cost of living, as well as the consequences of war and the pandemic, narratives that view climate protection as a luxury we can no longer afford are gaining prominence. The fact that different social groups, industries and Member States benefit from the energy transition to varying degrees exacerbates these conflicts. In many places, its socio-economic benefits do not reach households and companies. The result: The output legitimacy of EU energy policy is declining.

At the same time, the consequences of climate change are becoming ever more glaring. As a signatory to the Paris Climate Agreement, the EU has a responsibility. There is consensus in the scientific community that the answer must be an accelerated switch from fossil fuels to renewable energy sources. Energy consumption must become more flexible to adapt to the weather-dependent supply of sun and wind. However, the European energy infrastructure is not yet designed for a renewable energy economy. Electricity and heat storage systems have also not yet been developed to a sufficient extent.

In order to master the European energy transition under these difficult conditions, its democratic legitimacy also needs to be a central political goal. With more binding control instruments and coherent infrastructure planning geared towards the common good, costs and benefits can be distributed more fairly and at a faster pace. The German Federal Government can make a significant contribution to its success by acting as a constructive problem-solver in these challenges for infrastructure development and investment security. With a few exceptions, the recommendations for action presented here are within the framework of the EU treaties and can be implemented without EU treaty changes.

Reform objectives

- Enhance planning security with greater commitment and consistency
- Support the local/regional level in implementing the energy transition and realising local value creation
- Put the common good above fossil fuel interests
- Distribute the costs and benefits of the energy transition fairly
- Strengthen social participation

Proposal 1 | Soft but binding governance instruments

Make the enforcement mechanism in the NECPs (National Energy and Climate Plans) more binding and effective

- More effective and comprehensive gap filler mechanism
- Financial incentives for better regional cooperation in the drafting of NECPs
- Preferential access to EU funding
- Uniform minimum standards for public participation procedures
- Enable treaty infringement proceedings against Member States

Establish more coherent common ambition levels in EU climate law

- Set interim targets for 2035 and 2045 in the ordinary legislative procedure
- Introduce a ratchet-up mechanism for automatic adjustment of EU climate targets
- Derive sector-specific targets in sync with the UNFCCC process
- Strengthen the European Scientific Advisory Body on Climate Change (ESABCC)

Proposal 2 | Public welfare and future-oriented infrastructure planning

Bundle energy infrastructure planning with an independent energy system operator (ISO)

- Check institutional requirements for the establishment of an ISO
- Strengthen the involvement of the European Parliament in network planning

Extend the powers of national energy regulators and the EU Agency for the Cooperation of Energy Regulators (ACER)

- Introduce a mandate for regulators for climate target-oriented network planning & usage rules
- Extend the competencies of ACER and the Ten-Year Network Development Plans
- Introduce regulators' right to reject or revise network operators' network plans

Proposal 3 | Place EU funds at the service of the energy transition and distribute them fairly

Exclude climate-damaging technologies from EU funding support

- Extend the Do-No-Significant-Harm principle in the EU budget
- More consistent preference for renewable energies when it comes to subsidies
- Raise climate spending quota for the EU budget

Focus the next EU budget on a fair, accelerated energy transition

- Establish EU Sovereignty Fund
- Significant increase in EU innovation funds
- Increase and extend Just Transition Funds
- Joint EU-funded tenders for renewable energies
- Establish EU climate dividend (alternative: as a first step, oblige all Member States to pay a climate dividend)
- Better support for the Instrument for Pre-Accession Assistance

1 Current challenges

The EU legislative period 2019–2024 has made the European Green Deal possible and given the energy transition in Europe a decisive boost. There is hardly an energy-related EU law that has not been revised and adapted to a higher level of ambition in the last five years. With a historic increase in votes for the Greens/EFA Group, the 2019 European elections gave a clear mandate for greater climate protection and an ambitious energy transition. Fridays for Future emerged as a climate movement with strong support among broad sections of the population. Against the backdrop of a worsening climate crisis, it called for action to be taken across Europe in response to the warnings given by climate scientists.

This broad social support now appears to be crumbling. Against the backdrop of rising energy prices and the higher cost of living, war and the pandemic, narratives that see climate protection as a luxury that we can no longer afford are gaining prominence. Issues such as security of supply, defence, energy prices, and economic competitiveness are now at the forefront of voters' minds. Climate policy is a prime target of emerging populist forces that construct a simplistic connection between high energy prices and the energy transition.

The fact that different social groups, industries and Member States benefit to varying degrees from the energy transition exacerbates the conflicts. In many places, the potential of renewables to reduce energy costs does not transfer to private households and companies. Complicated permitting processes, delayed infrastructure expansion, and a lack of funding make it difficult to be more broadly involved in the energy transition. Many households cannot afford the initial investment in, for example, a heat pump or an electric car, even though these are more cost-effective in the long term. This is a failure of the energy policy of the EU and its Member States, which have not managed to make the benefits of the energy transition available to the wider population. The result: The output legitimacy of EU energy policy is waning.

At the same time, the consequences of climate change, such as flood disasters and periods of drought, are also becoming increasingly severe in Europe. They make it clear that climate change must be tackled as a cross-border problem at the highest political level. The re-election of Ursula von der Leyen as the President of the European Commission, for whom the European Green Deal is also a question of political legacy, gives us hope that this important project for the future of the EU will be continued. However, with a shift to the right in the European Parliament after the European elections, a key driver for more climate action in the EU could be weakened.

For years now, the differences between EU Member States, some of which have very different visions of their future with regard to energy, have also prevented binding national target agreements that would create planning security for households and companies.

Differences exist above all with regard to the future significance of certain sources of energy, such as nuclear power, or of carbon capture and storage (CCS), and the associated degree of centralisation of the electricity system. However, if the energy transition in the 27 Member States is primarily conceived at national level, the huge potential for securing an affordable and efficient EU-wide energy supply will remain untapped. A possible enlargement of the EU to include the current accession candidates will not make joint decision-making any easier. At the same time, many of the necessary changes need to be implemented at local level. However, local authorities are reaching their limits due to chronic underfunding and a shortage of skilled workers.

The last few years have shown that the EU has the capacity to act as one when necessary. In addition to the European Green Deal, the EU adopted an unprecedented Covid-19 aid package, weathered a fossil fuel price crisis, and stood up to an aggressive Russia. Although these were major successes, they have ultimately contributed to a perception that the energy transition is not as urgent anymore as it actually is in view of the advancing climate crisis.

The energy transition is a long-term project aimed at transforming the entire economy. In times of crisis, sticking to the status quo is certainly an understandable reflex. Nevertheless, it is regrettable that the EU and its Member States missed the opportunity to bid a decisive farewell to the fossil fuel era when turning away from Russian gas supplies. Despite everything that the European Commission's RePowerEU package has achieved for the accelerated expansion of renewable energies, fossil fuel subsidies have risen to an all-time high and a slew of new gas infrastructure projects have been launched. This is also due to the strong lobbying influence of the fossil fuel industry on the EU institutions. Fossil-fuel stakeholders are involved in drafting legislative proposals through expert groups and committees. They even play a decisive role in the planning of natural gas and hydrogen networks. This has created a bias in the democratic decision-making process and thus in input legitimacy, which further erodes support for the energy transition.

However, the EU cannot afford to cling to fossil fuels. Expensive fossil fuels weaken purchasing power and competitiveness. They make the EU vulnerable to blackmail by those autocracies whose coffers it continues to fill through fossil fuel imports. A resilient European economy with affordable energy and intact ecosystems can be achieved in the long term by consistently pursuing the European energy transition. However, this long-term nature is a central problem from the perspective of democratic theory. Although the principle of intergenerational justice is enshrined in the EU treaties and the constitutions of many Member States, future generations do not have a vote here and now.

2 Political objectives

We are in the middle of the critical decade of the energy transition, in which far-reaching changes must be initiated to be able to reach climate targets. In addition to a resolute switch from fossil fuels to renewable energy sources, the energy transition must be implemented in all sectors. Heating and transportation must be electrified by heat pumps and electric cars. A renewable hydrogen economy must be established for industrial processes that are difficult to decarbonise. This will increase electricity consumption, while overall energy consumption needs to fall. To achieve this, the electricity grids must be expanded and modernised, energy storage technologies must be built up, and electricity demand must be better coordinated with the weather-dependent supply of wind and solar energy.

This opens up an area of conflict: In order to meet the targets of the Paris Climate Agreement, the energy transition needs to be accelerated. At the same time, due to the shift to the right in the European elections, it will even be a challenge to continue at the pace of the European Green Deal. In order to master the energy transition even under these difficult conditions, the continued support and democratic legitimisation of this critical project must be a central political goal. The following political objectives are derived from this:

Enhance planning security with greater commitment and consistency: In view of the climate and biodiversity crisis, maintaining prosperity and competitiveness requires a clear political direction. Long-term investment decisions require planning security.

Support the local and regional level to implement the energy transition and benefit from local value creation: Municipalities and regional authorities often lack personnel, expertise, and financial resources. They must be supported and involved to a greater extent, e.g. in order to appropriately implement their local heating plans or the designation of renewable expansion areas and realise the benefits of local value creation.

Put the common good above fossil fuel interests: The fossil fuel industry's preferential access to political institutions must be restricted. Central planning processes in the hands of fossil interest groups, such as grid planning, must be brought under independent and democratically legitimised control with a view to the common good and preservation of the livelihoods of future generations. Public funds must be spent in the interests of the common good and future generations.

Distribute the costs and benefits of the energy transition fairly: This applies both at the level of Member States and individual households: They must be put in a position to switch to renewable energies and take advantage of the price benefits of the renewable energy system. Growing fragmentation between the Member States must be avoided. The reduction in fossil fuel subsidies promised for years now must be implemented in order to avoid increasing the costs of the energy system unnecessarily for the general public. Care must be taken

to ensure that subsidies aimed at combating energy poverty are combined with targeted, energy transition-friendly support measures.

Strengthen social participation: The perception that the energy transition is being «ordered from above» must be countered by creating better opportunities for participation. Municipalities, affected citizens, and social groups beyond the fossil fuel industry in particular need to have their needs heard to a greater extent. The EU's energy policy should enable more widespread participation by guaranteeing better institutional involvement of the local/regional level and the inclusion of previously underrepresented groups. Member States must take political participation and consultation processes seriously when drafting the National Energy and Climate Plans (NECPs) and allocating EU structural funding, instead of neglecting them, as is currently the case.

3 Reform proposals for an accelerated European energy transition

In order to achieve the above-mentioned goals of an EU energy policy that focuses on connectivity and coherence, we need soft but binding control instruments as well as infrastructure planning that is oriented towards the common good and the future. All of the recommendations for action presented here are within the framework of the EU treaties and can be implemented without treaty change.

Soft but binding governance instruments

EU Member States must pull together and be able to rely on agreed targets also being met by the others. National measures derived from the EU climate targets require particular legitimisation to avoid the impression that Brussels is imposing them on the Member States. Ensuring broad participation here is therefore particularly important for supporting the energy transition. In order to achieve these targets, the NECP process should be provided with an effective enforcement mechanism, particularly for climate and renewables targets, and be underpinned by proper public consultation.

As the EU treaties ensure Member States' sovereignty over their national energy mix, soft governance instruments are the only means to increase the coherence and binding nature of EU climate and energy policy without amending the EU treaties. The National Energy and Climate Plans (NECPs), based on the Governance Regulation, are the central instrument in this regard.

However, the NECP process has not yet garnered any momentum for an accelerated, ambitious European energy transition. As a rule, Member States do not submit any additional measures but merely report what is already planned at national level, or submit incomplete and delayed plans drawn up without public participation. Despite often critical assessments from the Commission, NECP drafts are rarely improved upon or violations penalised. The result: There is a gap between the EU's climate targets and the progress expected on the basis of the NECPs. The NECP process therefore needs a more effective and comprehensive gap filler mechanism that encourages Member States to actually make an adequate contribution to meeting the common EU climate targets.

In the area of the Energy Efficiency Directive or the Effort Sharing Regulation, Member States that do not meet their targets can already be asked to take additional measures. Failure to do so can lead to treaty infringement proceedings by the Commission. This mechanism must also be introduced in other core areas of the NECP process, such as the climate and the renewables targets. Here, too, infringement proceedings should be

permitted against Member States that do not achieve at least a national reference value derived from the EU-wide goal and have not taken any additional measures to remedy this shortcoming after being requested to do so. The Commission also needs an effective enforcement mechanism for other often neglected NECP obligations, such as broad social participation and combating energy poverty.

The mutual coordination of NECPs within the framework of regional cooperation, which is currently only used to a limited extent, should also be provided with clear incentives, such as preferential access to EU funding. In order to ensure due participation of civil society and avoid jeopardising acceptance of the energy transition, the NECP consultation obligations must be underpinned by uniform minimum standards.

Defining the levels of ambition for both EU climate targets and specific targets, as in the Renewable Energy Directive, requires more coherent procedural and chronological coordination. The EU Climate Law should therefore be adapted accordingly. The setting of interim targets for 2035 and 2045 should take place through the ordinary legislative process and not, as is currently the case, via an indicative target path. This would also involve the EU institutions with direct democratic legitimisation. As the EU climate targets set to date still fall far short of the level of ambition required by the Paris Climate Agreement, a ratchet-up mechanism is needed to enable the targets to be regularly adjusted in line with the UNFCCC process, the United Nations Framework Convention on Climate Change. This means that for derived specific targets, e.g. for renewable energies, the possibility of subsequent adjustment to higher climate targets should be created without renegotiating the corresponding directives.

The European Scientific Advisory Body on Climate Change (ESABCC) should be better enabled to provide the necessary expertise to support and improve good evidence-based policy-making. As an advisory body not embedded in the EU treaty structure, it does not replace democratic control by the European Parliament. It can, however, support the European Commission as guardian of the EU treaties by performing its task of reviewing the coherence of EU legislation with climate targets. As an independent body with expertise in climate science, the Advisory Board can identify shortcomings at an early stage and contribute to a target-compliant EU climate and energy policy with its opinions and expert reports.

Public welfare and future-oriented infrastructure planning

The dominance of special industrial interests in energy infrastructure planning and regulation impairs the orientation of energy policy towards the common good and intergenerational justice. The achievement of EU climate targets is jeopardised by poor infrastructure.

However, efficient energy networks geared towards the energy transition are a prerequisite for passing on the positive effects of renewable energies to households and companies in a fair manner. For this reason, energy infrastructure planning should be bundled with an independent energy system operator (ISO) in the long term.

Cross-border network infrastructure in the EU is currently being planned on the basis of proposals from the network operators' associations ENTSO-E (electricity), ENTSOG (gas) and, in future, ENNOH (hydrogen). This process lacks transparency and democratic legitimacy, and is insufficiently geared towards achieving the climate targets. Gas network operators have a clear incentive to delay the gas phase-out and plan an oversized gas and hydrogen network in order to preserve their existing business model. Under the existing grid fee structure, electricity grid operators have an incentive to prioritise grid expansion over less capital-intensive options (such as energy storage) and demand-side flexibility as a solution to grid congestion. Due to the decisive role of the network operators' associations in the practical organisation of the EU energy markets, there is also a risk that gas customers will be left alone with the infrastructure costs and electricity customers will not be able to fully benefit from the cost advantages of renewable energies and dynamic contracts.

An independent energy system operator (ISO) with bundled responsibility for all gases, hydrogen, and electricity could implement the EU energy infrastructure in a more coherent, efficient, and targeted manner than the current system of separately responsible and profit-driven business associations. The UK's Future Systems Operator, an independent public body founded in 2021 to plan and regulate electricity and gas grids with a mandate to achieve climate neutrality, could serve as a model in this case.

As part of the implementation of the European Commission's Action Plan for Grids of November 2023, it should therefore be examined which institutional requirements need to be created for the establishment of an ISO to take over the functions currently performed by the ENTSOs and how to strengthen the involvement of the European Parliament in network planning.

As a first step, the competencies of the Agency for the Cooperation of Energy Regulators (ACER) in regards to the assessment and coordination of the Ten-Year Network Development Plans (TYNDPs) should be strengthened. In particular, ACER should be given a mandate for climate target-oriented network planning and usage rules, which should also be extended to the national regulatory authorities. The regulators should also be granted the right to reject and fundamentally revise the grid operators' grid plans if they are inconsistent with climate targets.

Place EU funds at the service of the energy transition and distribute them fairly

The EU budget can make a major contribution to distributing the costs and benefits of the energy transition fairly and supporting municipalities with the energy transition in difficult budgetary situations. The upcoming EU budget negotiations offer a good opportunity to address existing imbalances through instruments such as an EU sovereignty fund, EU-covered tenders for renewable energies or the establishment of a climate dividend.

With the Do-No-Significant-Harm principle, the first steps have already been taken to align EU funding with the achievement of climate targets. However, fossil fuels continue to compete with renewable energies for subsidies.

Climate-damaging expenditure should therefore be consistently excluded in the EU's next Multiannual Financial Framework by extending the Do-No-Significant-Harm principle. An increase in the climate spending quota for the EU budget is another sensible measure to stimulate investment in the energy transition.

The EU Social Climate Fund is an important step, but not enough to compensate consumers financially for rising CO_2 prices. Against this backdrop, it would be desirable to set up an EU climate dividend, which should be financed from EU funds and distributed to particularly affected groups. However, as there are high political and bureaucratic hurdles to setting up such an instrument in practice, a sensible interim solution would be to oblige all Member States to establish a climate dividend, which could be funded from the additional revenue generated from the European Emissions Trading Scheme for Buildings and Transport (ETS II).

The EU budget is currently too small to ensure an appropriate balance between Member States and regions that benefit differently from the energy transition in the spirit of European solidarity. One particularly large gap is the promotion of future technologies, where the EU is falling behind the United States, China, and Japan with funding programmes worth hundreds of billions. While the new Net Zero Industry Act lays the foundations for higher subsidies to be granted by Member States themselves, it also entails the risk that more wealthy Member States will pull away in the competition to attract future technologies. A European solution is needed to create a fairer playing field.

The idea of a well-financed EU Sovereignty Fund, as proposed by the President of the Commission in 2022, on par with the investment programmes launched worldwide, should therefore be revived. Such a fund could be financed by the EU's own resources or by joint borrowing based on the model of the NextGenerationEU recovery instrument. At the very least, however, the existing innovation fund should be significantly increased as part of the upcoming budget debate, as the Strategic Technologies for Europe Platform (STEP)

launched by the EU lags far behind the innovation funding programmes of international competitors.

Joint EU-funded tenders for renewable energies are another tool that can help poorer Member States catch up with the energy transition. The successful Just Transition Fund (JTF) should also be increased and made accessible to all interested regions.

In order to offer EU accession countries stronger incentives to adopt the energy and climate policy acquis and drive forward their own energy transition, the Instrument for Pre-Accession Assistance should also be better funded.

4 Potential for accelerating the European energy transition and Germany's contribution

The political context for the energy transition and the continuation of the European Green Deal is likely to be more difficult than during the 2019–2024 legislative period. This is suggested by the shift to the right in the European elections, as well as the increasing conflicts in the European Parliament and among the Member States regarding the most recent EU legislative proposals. On the other hand, the situation is less clear in the Council. A shift to the right is also predicted in upcoming national elections in 2024, e.g. in Austria, Belgium and Romania. However, the opposite trend was recently observed in the election in Poland, the fifth largest Member State, in the autumn of 2023. In Spain, the right-wing populists also lost votes in the parliamentary elections held in June 2023. Above all, right-wing populist parties are crisis parties. It is anything but certain that their upswing will continue in the coming years.

Should a political shift to the right move the energy policy discourse to topics such as competitiveness, security of supply, and energy prices, the energy transition can also provide convincing answers to these issues. Over the next five years, there will be opportunities to advance important reforms such as the proposals discussed above on governance, grid regulation, and financing the energy transition. The grid action plan, as well as the action plans for wind and solar energy, contain sensible measures that the outgoing Commission has prepared, but which the incoming Commission has to get across the finish line. In addition, the pressure to reform the governance regulation will increase if the second NECP round in 2024 produces another sobering outcome. The negotiation of the next Multiannual Financial Framework also offers an opportunity to initiate fundamental reforms in EU budgetary policy.

At the same time, there is a risk that future technologies will move abroad and that value creation and jobs will be lost in the EU in areas such as the production of solar modules, wind turbines, batteries, and electrolysers if the investment gap is not closed and if there is a lack of planning certainty due to a zigzag course in climate policy. Due to its export orientation in the EU internal market, Germany has a strong self-interest in not allowing the European energy transition to falter and fragment. Germany also has greater influence in the Council than any other EU Member State and therefore also has a great responsibility to counteract such a scenario and compensate for any future lack of climate policy impetus from the European Parliament. In order to be able to utilise this potential, the German Federal Government must consistently «define German interests in the light of European interests» in line with the government coalition agreement. This starts with regaining the trust of the EU partner countries, which has been squandered in recent years. On several occasions, key projects of the European Green Deal were first negotiated, only for Germany

to walk back on the previously negotiated positions. The so-called «German Vote» is now proverbial in EU circles and stands for unreliable voting behaviour.

In order to ensure a successful start to the new EU legislative period and strengthen orientation to the common good and democratic support for the energy transition, the German government should emphasise cooperation at an early stage. This could start with re-invigorating the Weimar Triangle between France, Poland, and Germany by focusing on common interests in energy transition technologies. With a better coordinated Franco-German approach, which has suffered in recent years, and in conjunction with a more constructive Polish government, the German government can help to create majorities for key projects in the Council.

The tried-and-tested intergovernmental format of the transnational North Seas Energy Cooperation (NSEC), currently involving nine EU Member States and the European Commission, also offers potential for better coordination of EU and national energy policies. The focus of the forum could, for example, be expanded to include coordination on the required onshore infrastructure, if only to create a better mutual understanding of the respective planning of renewable energy expansion. Another area in which Germany, as the highest-income and most creditworthy Member State, could exert more influence than any other EU country, are the upcoming EU budget negotiations. Openness towards joint borrowing, as was the case during the Covid-19 pandemic, would open up completely new perspectives for financially less prosperous Member States that are dependent on EU funds for large parts of their public investments when it comes to implementing the energy transition.

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